

# RIA M&A Eclipses 2020 Volume Within Q3

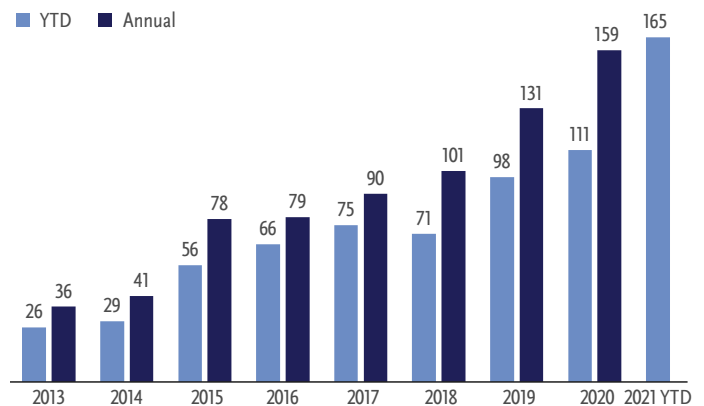
*Record pace spurred by large sellers and repeat buyers*

2021 is proving to be a complex, yet exciting, environment for RIAs seeking to sell. High valuations, succession planning, interest in benefits of scale, and tax concerns are bringing them to the negotiation tables. And the proven dealmaking and integration success stories of seasoned acquirers are paving the road for would-be sellers to make the move.

The 60+ transactions posted in the third quarter quantify the current intensity of RIA M&A. Setting a new quarterly record, the 64 transactions posted in the period are 49% above Q2 and 60% above 2020's quarterly average of 40. A new pattern of quarters with 50+ transactions is beginning to emerge after 40+ being the previous normal.

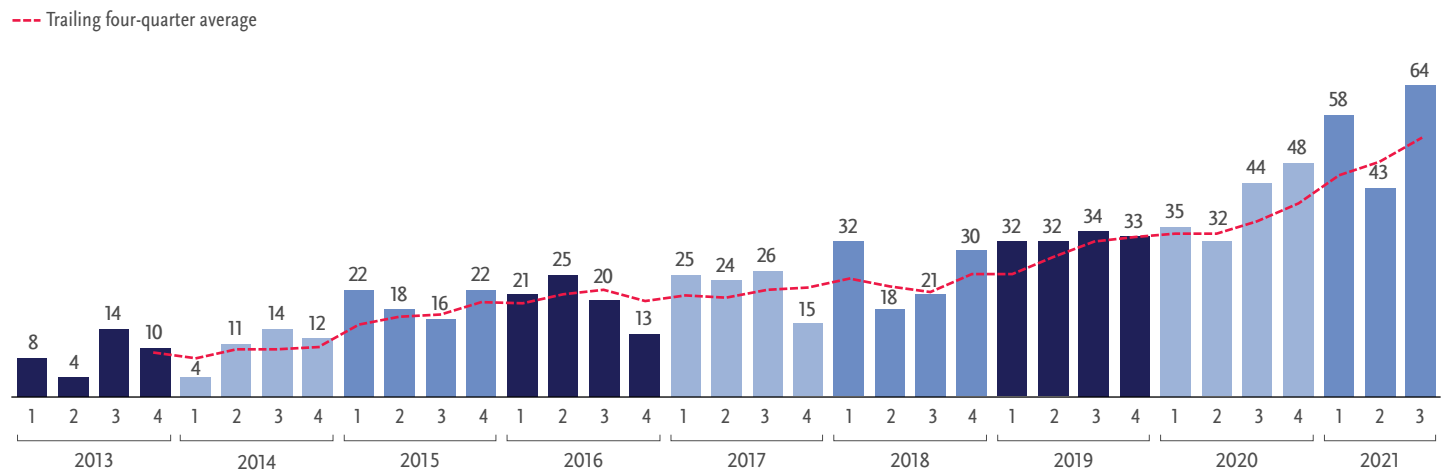
## 2021 Eighth Successive Record Year

Year-to-date vs annual M&A activity



## Third Quarter Establishes New Quarterly Record

Number of transactions executed per quarter



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With 58 and 43 transactions in the first two quarters of 2021 respectively, the industry crossed 100 transactions by the midpoint of the year. Now with 165 transactions through the first three quarters, the industry has surpassed the annual record of 159 transactions set last year. With this new high-water mark, 2021 is officially the eighth successive record year of RIA M&A activity.

“I feel like a broken record, but it’s true: RIA M&A activity and interest among advisors is truly unprecedented,” said David DeVoe, Founder and CEO, DeVoe & Company. “High valuations, interest in solving succession and achieving scale, and concerns about looming tax changes are driving record levels of external sales.”

### \$1B+ Sellers Represent More than Half of Transactions

Large firms are selling in greater numbers. Over half of all transactions in the third quarter involved selling firms with \$1 billion or more in AUM, a sizable uptick from the historic average of 30%. This share jumped to 38% in 2020 and held steady through the first half of 2021. During the pandemic, \$1B+ firms — RIAs with professional management in place — had the time and energy to move forward with strategic work like M&A. However, mid-size and smaller firms did not.

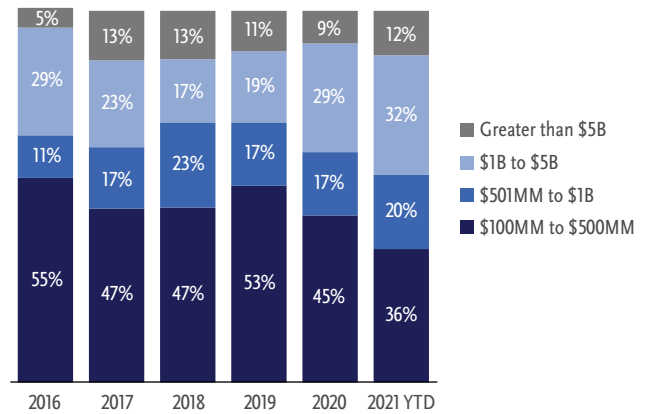
Within the \$1B+ group, sellers of \$5B or more have been unusually active. Private equity is accelerating its investment in the RIA space and typically wants to acquire firms of scale. The 11 transactions by \$5B+ in the quarter is an all-time high for the industry, and 20 YTD is nearly double the historic average. The \$5B+ sellers represent 17% of all transactions in Q3, nearly double the share reached in Q1 and Q2.

While large firms have extended the momentum that started in 2020, mid-sized firms have decreased their activity. A mere eight transactions were by sellers of \$500MM to \$1B in AUM in the quarter, down from 15 posted by this group in the first quarter.

Sellers below \$500MM may still be focused on other initiatives, continuing to delay succession planning or simply satisfied with their status quo. The share of the firms in the \$100MM to \$500MM range for sellers has dropped from 53% in 2019 and 44% in 2020 to 36% YTD 2021.

### Sellers with \$1B+ AUM Expand Share of Transactions

Percentage of total transactions by seller AUM



However, all boats are rising in the incoming tide of M&A activity. On a nominal basis, all segments experienced heightened activity levels versus the first three quarters last year. Firms across the entire spectrum are contemplating and executing the ‘external sale option’ as a strategy to achieve a variety of company goals.

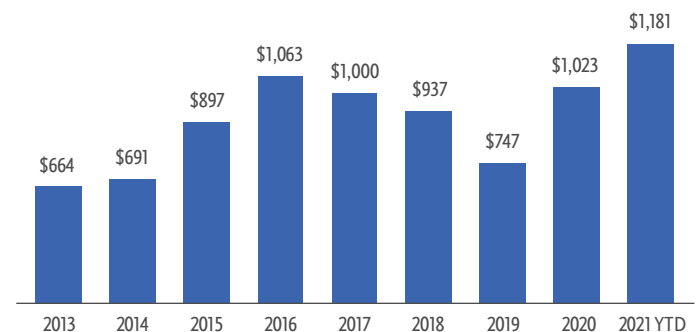
### Number of Transactions by Segment Size

	2020 Q1–Q3	2021 Q1–Q3	% Increase
\$1B+	43	73	69%
\$501MM–\$1B	19	33	74%
\$100MM–\$500MM	48	59	23%

As larger firms sell, the average size of an RIA seller ticks up. The year-to-date average AUM for transactions greater than \$100MM and less than \$5B increased to \$1.18B, an all-time high for the industry. The surge in large RIA activity is evident in the sharp increase from \$747MM in 2019.

### The V-Curve for Average Seller AUM

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



## Seller Size Expectations

DeVoe & Company expects larger and mid-size firms to continue their momentum as sellers while smaller firms also re-enter the market in greater numbers. Many owners of large firms are now approached on a weekly basis to discuss a sale. Valuations, particularly from serial acquirers, are at historic highs. Owners of RIAs rarely decide to sell based on a high valuation, but today's big numbers are making it easier to accept a buyer's phone call.

Competition among buyers of \$1B sellers has increased significantly. Focus, Mercer, CI Financial, Beacon Pointe, Hightower, Wealth Enhancement Group, and others are all active in the \$1B+ market. Many of these firms have moved upstream in terms of transaction size, as it takes just as much energy and effort to do a big deal as a small one. Some of the activity among these buyers is driven by private equity owners that seek to build assets, revenues, and profitability quickly.

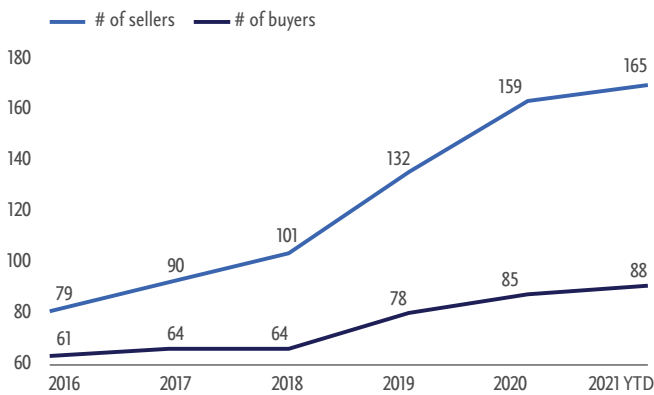
The complexion of RIA buys is evolving along another dynamic.

## 'Seasoned Acquirers' Dominate the Playing Field

As highlighted in the Q1 2021 RIA Deal Book, the number of sellers has doubled over the last five years, while the number of buyers executing a deal each year has ticked up only 40%. As a result, the average buyer is executing two deals per year, but many are closing five or more transactions.

### Seller Volume Outpacing Buyers

Number of sellers vs buyers 2016–2021



As many serial buyers became more sophisticated and grew their acquisition teams, a number of hyperactive acquirers emerged. Many started executing two, five or even a dozen in a year. These 'seasoned buyers' are now dominating the M&A playing field and absorbing most of the sellers. During the last two years, over 80% of transactions were initiated by buyers who had already made at least one prior RIA acquisition.

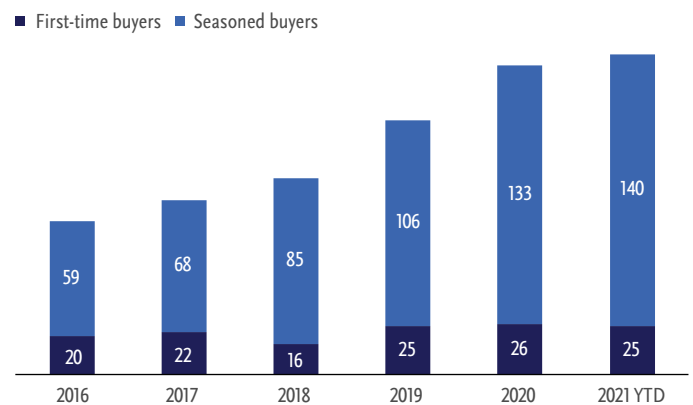
This trend has come mainly at the expense of first-time buyers. The share of transactions executed by organizations closing their first RIA transaction has been declining steadily as a portion of all deals. Five years ago, nearly 25% of RIA transactions were captured by first-time buyers of RIAs. The value proposition was relatively comparable to other acquirers, and the playing field was fairly balanced. But this share has steadily eroded to just 15%. So, while the number of transactions executed by first-timers has increased about 25% over the last five years, seasoned acquirer transactions have more than doubled.

The shift has been driven by a variety of factors.

**Money talks:** Major acquirers are typically backed by private equity firms, and the path toward a future liquidity event often yields a willingness to pay higher valuations. The business models of serial acquirers are also often designed to expand margins and increase growth — creating a strong rationale to pay a premium for the right RIA.

### Seasoned Buyers Making the Market

Number of first-time buyers vs seasoned buyers



**Robust teams:** Serial acquirers have invested in developing teams to support their inorganic growth. With growing internal corporate development headcount, leading acquirers can reach more potential sellers and get more at-bats to win deals.

**Value proposition:** Advisors are often seeking the power of scale as they contemplate a sale. Larger and faster-growing enterprises can be attractive to many sellers.

**Experienced transitions:** Sellers seek to minimize risk while optimizing the upside. The seasoned acquirers' track record of successfully completing several or dozens of acquisitions and integrations is a strong selling point for potential sellers.

First-time buyers should not necessarily walk away from their acquisition strategies. Overall, the number of transactions executed by first-time buyers has held steady at roughly 25 deals per year. To be successful, first-time buyers need to craft a clear story for why they are the best fit for a seller candidate. Most first-time buyers are different from serial acquirers in size, management team, long-term goals, and even culture. Discussing these differentiators as assets, as opposed to liabilities, can help close that initial transaction.

## Minority Investments Driving Major Results

During the last several years, the industry has experienced a proliferation of capital options. RIAs have benefited from an expanding set of loan and capital choices that now includes SBA loans, conventional loans, revenue share instruments, 'passive' capital and other solutions. Minority investments in RIAs have been part of the wave and are recently accelerating. 16% of transactions in this year's third quarter were minority investments, compared to less than a percent in 2019.

Minority capital can serve a multitude of purposes. In many situations, it supports the ability of next-gen advisors to buy into the firm. In a growing number of cases, the economic value of RIAs is exceeding the grasp of the next generation. The gap can potentially be closed with the participation of a minority investor. But most often, selling firms typically take on minority investors to support an inorganic growth strategy. Most commonly, these are larger RIAs receiving capital from private equity firms.

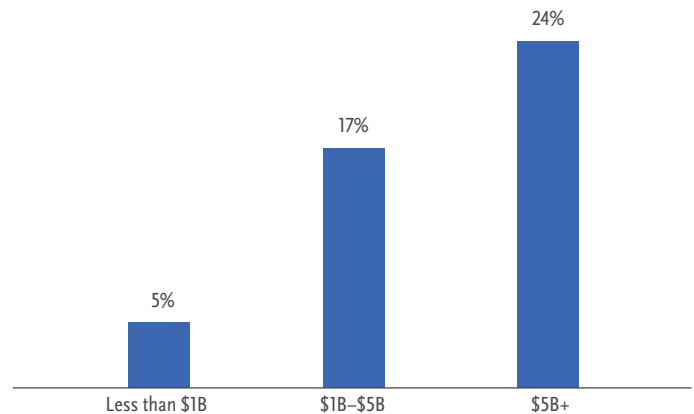
71% of the minority investments made since 2019 were in RIAs with \$1B or more in AUM. New Mountain Capital's investment in Homrich Berg is an example (DeVoe & Company supported New Mountain Capital in the transaction). Although New Mountain would have been

comfortable to take a larger stake, Homrich Berg wanted to keep a majority interest to remain independent. The \$10B RIA had demonstrated a track record of acquisition success, with a series of progressively larger acquisitions. To accelerate this momentum and to allow for an efficient succession plan, the company was interested in a minority partner.

Other examples of firms that have recently carried out acquisitions after transacting with a minority shareholder include Creative Planning, EP Wealth Advisors, Steward Partners, and Sequoia Financial Group.

## Large Firms More Likely to Take on Minority Investment

Minority transactions as a percentage of all transactions 2019–2021 YTD



## Top 10 Minority Investments 2021 YTD

Seller	AUM (in MM\$)
Mariner Wealth Advisors	\$35,000
Carson Group	\$17,000
Concurrent Advisors	\$12,200
Homrich Berg	\$10,000
Steward Partners	\$9,824
Gerber/Taylor Capital Advisors	\$6,300
Plancorp	\$5,000
WMS Partners	\$5,000
Douglass Winthrop Advisors	\$4,800
Exencial Wealth Advisors	\$4,000

## Consolidators Are the Most Active Buyer Category

*Consolidators* lead the pack for YTD number of transactions. These firms posted 71 transactions for the year-to-date period, an increase from the 66 transactions for the full year total for transactions by the *Consolidators* buyer category in 2020. *Consolidators* accounted for 30 of the 64 transactions in the third quarter. The market share for *Consolidators* stands at 43% YTD, on par with their share from the last three years.

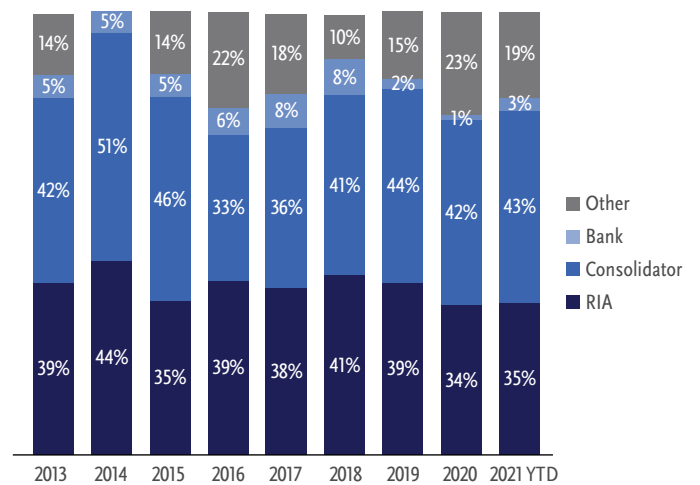
*RIAs* have also maintained their share on both a number and percentage basis. *RIAs* posted 19 transactions in the quarter and 57 transactions across the first three quarters of 2021, surpassing the full-year total of 54 reached in 2020. On a percentage basis, the market share for *RIAs* has remained consistent with last year at 35% YTD. *RIAs* historically represented approximately 40% of all transactions. They have lost share to *Consolidators*.

The activity of private equity investors and firms making minority investments, which are within the *Other* category, continues to represent a significant share of transactions. At 19% for the year, the *Other* buyer group dropped slightly below its highest-level share set at 23% of transactions and 37 transactions in 2020. The 32 transactions YTD highlights the continued interest in non-traditional buyers — mainly private equity — entering the *RIA* space.

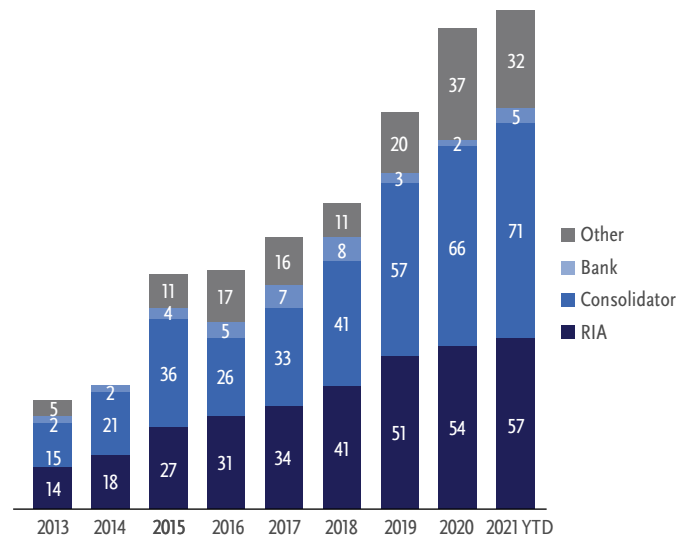
*Banks* have reached five or more transactions in a calendar year for the first time since 2018. While only 3% of total share, *Banks* are retesting the waters to find the right partners. Only one transaction by a *Bank* posted in the third quarter.

## Consolidators Expand Share of Transactions

Percentage of acquisitions by buyer category



Number of acquisitions by buyer category



## Conclusion

Although the complexion of the activity and the near-term drivers are constantly shifting, the increase in activity has been an overarching constant for the last eight years. The pandemic barely slowed momentum while private equity has immediate and long-term impacts. Different segments of sellers and buyers ebb and flow, but overall all boats continue to rise with the tide.

The current state of RIA M&A activity remains healthy. The increasing bandwidth and new entrants of buyers are keeping pace with the accelerating activity of sellers. So far, so good. DeVoe & Company analysis yields a projected upward trend of M&A activity that continues for at least another five years.

## 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.

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.

## 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 300 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 broad 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 300 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 \$10B 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 500  
engagements in the last  
several years, supporting  
firms managing \$50MM  
to over \$80B 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@devoeandcompany.com](mailto:info@devoeandcompany.com).**



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