

RIA M&A Finally Slows

Record Year, but Decline in Q4

RIA merger and acquisition activity dropped in Q4 2022, but the strong first three quarters pushed the annual volume to yet another record. The 264 transactions of 2022 were an increase of nearly 10% from 241 last year — making it the ninth consecutive year of record activity.

Transactions for Q4 totaled 61, down 20% from the same quarter last year. Notably, this was the first year-over-year quarterly decline the industry has experienced in over four years.

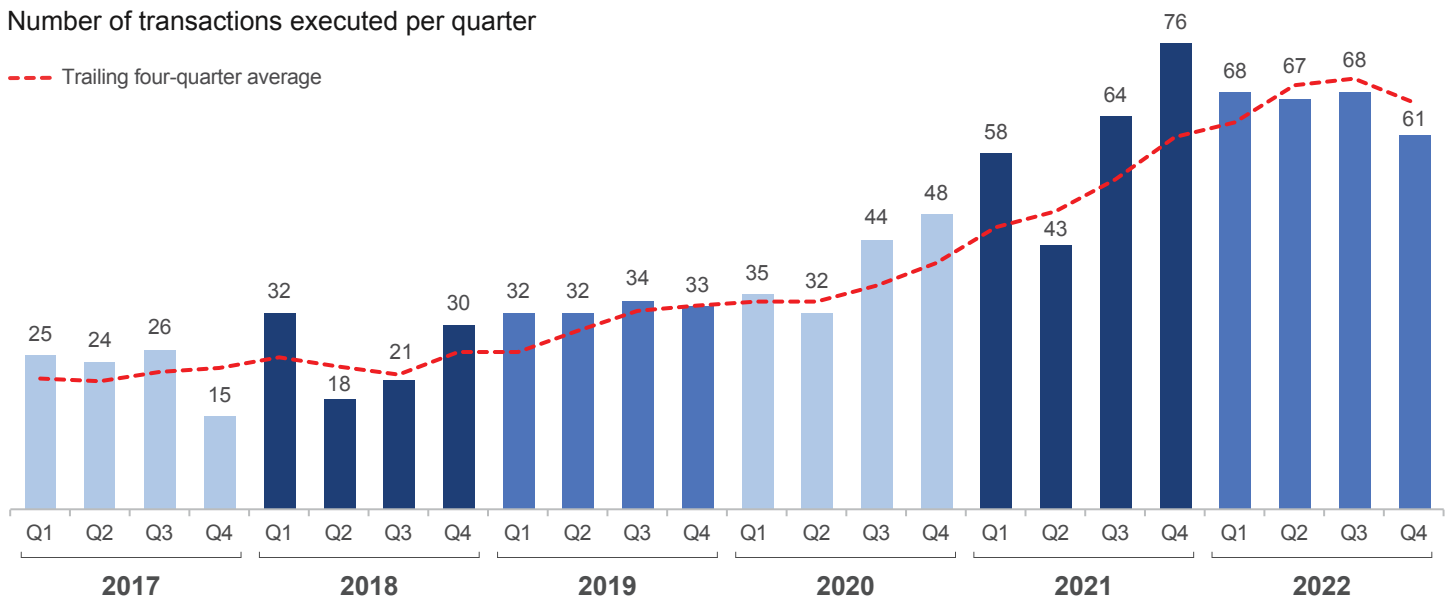
The quarter started with a whimper. October leaked out a single transaction in three of the four weeks — an 80% drop from a typical weekly clip. The pace picked up in November and December but remained below average. As a result, Q4 was the weakest quarter since Q2 2021.

The slowdown was driven by the confluence of several factors: a challenging environment of rising interest rates, volatile/declining equity markets, and sluggish domestic and global economies. Buyers and sellers alike became more cautious about partnership decisions. Buyers were more selective with the opportunities they pursued. Meanwhile, some sellers paused due to valuation concerns.

Fourth Quarter Slower than Rest of 2022 Quarters

Number of transactions executed per quarter

--- Trailing four-quarter average

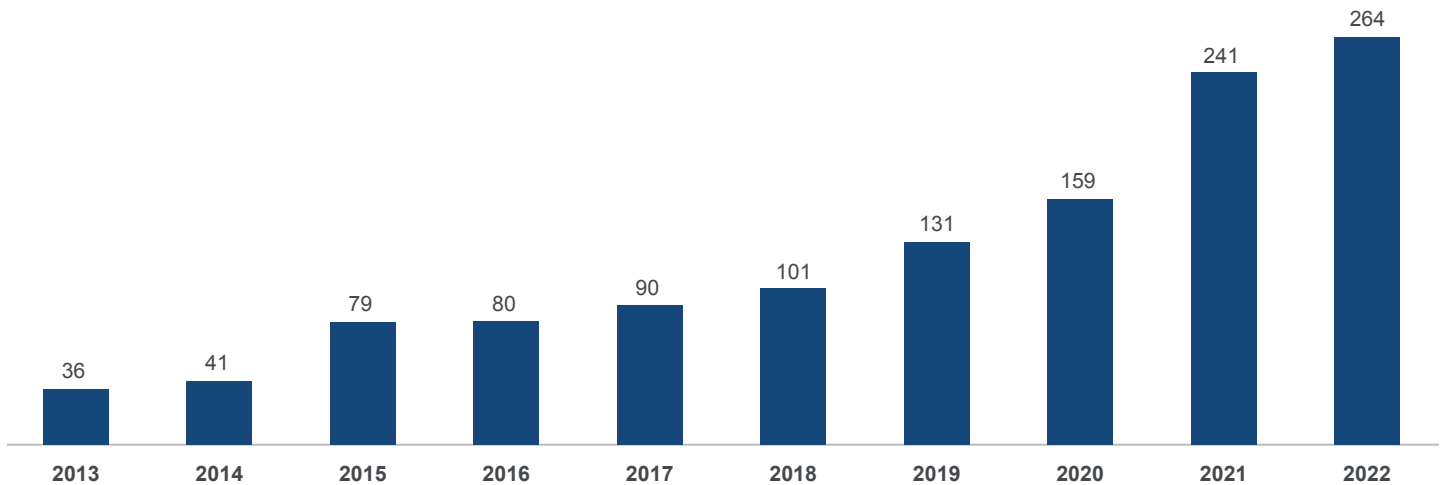


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Another Record Year, but Minimal Year-over-Year Increase

Annual M&A activity



Live Pipelines and Future Expectations

Despite the overall decline, many key players are experiencing ‘business as usual.’ As DeVoe & Company’s pipeline hadn’t slowed, we surveyed all the major acquirers and found that their pipelines are also strong. More than one-third of top acquirers we recently contacted said their pipelines had increased from four to six months ago; only one indicated a decline. Kay Lynn Mayhue, President, Merit Financial Advisors, summed it up, noting “an increase in our pipeline for both succession transactions and for firms looking for a strategic growth partner.”

Looking further out, we found not all RIAs are as optimistic as these seasoned buyers. Nearly one-fourth of RIA owners and senior executives responding to DeVoe & Company’s annual M&A Outlook Survey said they expect M&A activity will decline in 2023, while one-third anticipates little change. Even among the 42% who expected an increase in activity, few anticipated a big rise.

“M&A activity has been surprisingly resilient through a challenging 2022. But the amalgamation of pressure points ultimately fatigued many sellers, particularly ‘do it yourselves’ who didn’t hire an investment bank. Something had to ‘give,’ and it was often their transition planning initiative,” said David DeVoe, Founder and CEO, DeVoe & Company.

“Deals are now structured so that the seller can participate if and when the financial markets recover, while also taking some chips off the table in the event the markets get worse.”

– Scott Hanson, Co-Founder and Co-CEO, Allworth Financial

Valuations and Deal Structures in Today's Environment

The RIA industry has experienced peak valuations over the last several years — and for good reason. If a buyer can unlock value in an acquired firm, then they can pay more than other buyers who can't. Many of today's seasoned RIA buyers — mainly private equity-backed consolidators with sophisticated management teams — have carefully designed strategies, platforms and processes that can expand the profitability and accelerate the growth of acquired firms. Valuations have steadily increased over the last decade as these models demonstrated value and were further refined.

An additional valuation lift came from the macro environment. The economy, stock market and interest rates had also demonstrated degrees of resilience through the pandemic and the economic aftermath of COVID. Capital costs were low and private equity offers high. These factors contributed to valuation multiples swelling to new heights.

However, the macro environment changed in 2022. Interest rates shot up. The economy and future became bleaker. Stock market declines not only demanded the attention of advisors but also started driving down revenues and profits.

Interestingly, most buyers have not reduced the multiples they pay. Many are sophisticated buyers who have lived through crises before — they know this industry is resilient. Of course, the same multiple on a lower number (EBITDA) will yield lower overall valuations.

Rather than reduce valuation multiples, buyers are changing deal structures, reducing upfront cash payments,

adjusting cash/equity balance terms, and lengthening the time frame for subsequent contingent payments. In many regards, buyers are creating structures that can provide sellers with several mechanisms for upside potential when the markets bounce back. "Buyers are designing structures to appropriately incent RIAs who strategically 'should' sell today to make the move — as opposed to waiting until the stock market returns to its previous highs," said Brad Grubb, Managing Director, DeVoe & Company. Some buyers, for example, have chosen not to penalize a seller for missing an annual EBITDA target as long as the seller meets its overall target within the transaction time frame.

"Deals are now structured so that the seller can participate if and when the financial markets recover, while also taking some chips off the table in the event the markets get worse," said Scott Hanson, Co-Founder and Co-CEO, Allworth Financial, in our recent survey to active buyers.

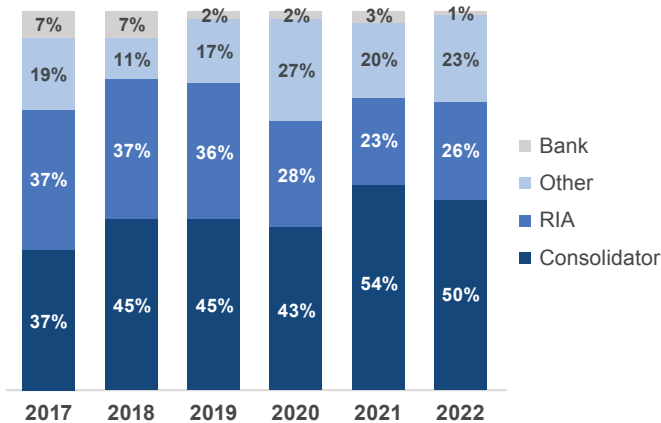
The logic doesn't seem to be lost on advisors. Close to 60% of RIA owners and executives surveyed in the *DeVoe 2022 M&A Outlook Report* anticipate lower valuations for next year, compared to just 8% anticipating a decline in the previous year's survey.

Consolidators Remain Top Buyer Category for 2022

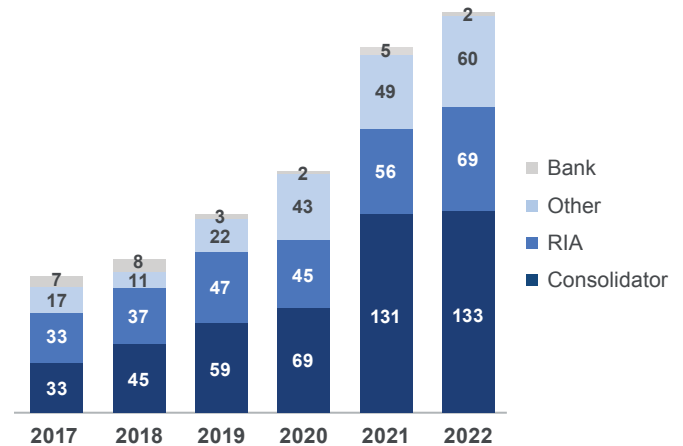
Nearly all boats rose with the 2022 tide. All buyer categories except *Banks* executed more transactions this year than in 2021. The mix among the four distinct buyer categories that DeVoe & Company tracks — *Consolidators*, *Banks*, *RIAs* and *Other* buyers — was little changed from 2021 in their rank order. Although *Consolidators* continued to lead by a large margin, they gave up some share to *RIAs*.

Consolidators Responsible for 50% of Transactions in 2022

Percentage of acquisitions by buyer category



Number of acquisitions by buyer category



Consolidators, companies whose business models are predicated on making RIA acquisitions, accounted for 133, or 50%, of all transactions in 2022. The number of transactions completed by this buyer group was nominally flat with last year, but down a few percentage points of total share. *Consolidators* have steadily increased their volume and share of the RIA M&A market. The category has increased from 37% of the market in 2017 to half of transactions today. More impressively, the 33 deals they signed in 2017 quadrupled to 133 in 2022.

All but two of the top acquirers (see table on next page) in 2022 are *Consolidators*, including Mercer Advisors, Wealth Enhancement Group, and Creative Planning. *Consolidators* were responsible for 55% of 2022 acquisitions of RIAs with less than \$1B in AUM and 38% of RIAs with more than \$1B in AUM.

RIAs completed 69 transactions in 2022, over a dozen more than last year. While many *RIA* transactions are smaller than the average, this group accounted for mega transactions as well in 2022. Cresset Asset Management merged in Meristem Family Wealth, a \$5.4B family office

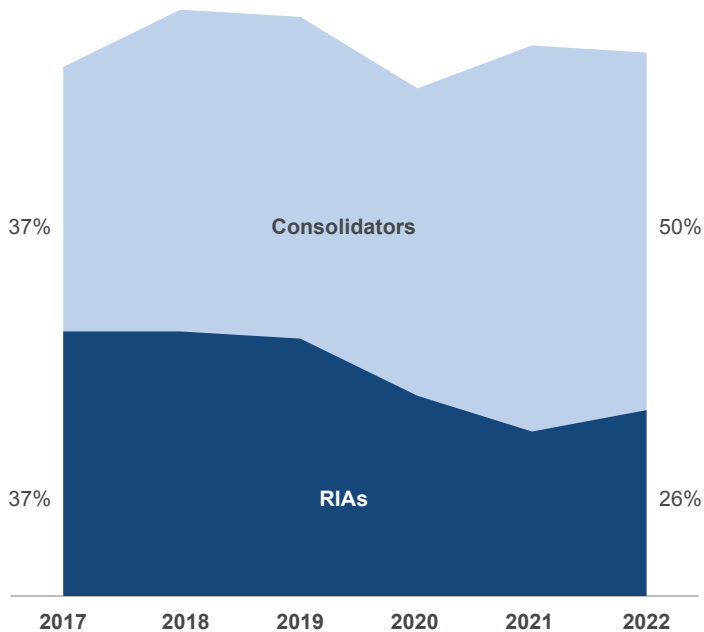
advisor, creating a multi-family office with more than \$27B in AUM. Another mega transaction by an *RIA* buyer was the merger of Wetherby Asset Management and Laird Norton Wealth Management. The combination created a \$15B organization.

RIA buyers accounted for 26% of all transactions, three percentage points more than last year. Unlike *Consolidators*, *RIAs* have seen their representation among buyer categories contract since 2017, when they represented 37% of all buyers. In 2017, *Consolidators* and *RIAs* accounted for an equal percentage of transactions (37% each). By the end of 2022, *Consolidators* dominated, leaving *RIAs* with only 26% share.

Banks continued to have a negligible presence among acquirers, accounting for just two transactions in 2022, down from five in 2021. Both acquisitions by *Banks* were regional and under \$300MM apiece.

RIA Transactions Have Eroded While Consolidators Gained Share

Market Share: *Consolidators* and *RIAs* 2017–2022



The final buyer category is *Other*, which includes all transactions outside of *Consolidators*, *RIAs* and *Banks*. Acquirers in the *Other* category completed 60 transactions, accounting for 23% of the year’s transactions. They distinguished themselves by having the greatest one-year increase in their activity, with 11 more transactions than the prior year. Private equity firms led this category with 13 transactions, continuing their momentum of investing in the RIA space. ‘Smart money,’ as private equity is often described, continues to see the independent wealth management model as the best way to support U.S. investors.

The second-most active group within the *Other* buyer category was insurance firms, with 12 transactions. Alera Group initiated the largest transaction among this group, acquiring Wharton Business Group, a DeVoe & Company client with over \$3B in AUM. OneDigital was the most active acquirer within the *Other* – insurance subcategory with six transactions this year, including another \$3B DeVoe & Company client, TimeScale Financial.

Broker-dealers were also active, executing seven transactions. Among this group, Cary Street acquired National Wealth Management, a \$295MM firm in New Jersey, and Dixon, Hubbard, Feinour & Brown, a \$1.6B RIA in Virginia.

Top Acquirers in 2022

Firm Name	Number of Transactions in 2022
Mercer Advisors	19
Wealth Enhancement Group	13
Creative Planning	12
Merchant Investment Management	11
Mariner Wealth Advisors	11
Beacon Pointe Advisors	9
Merit Financial Advisors	9
Allworth Financial	7
Bluespring Wealth Partners	7
Cerity Partners	7
OneDigital Investment Advisors	6
MAI Capital Management	6
CAPTRUST	6

All but two of the top acquirers in 2022 were *Consolidators*. This top acquirer group of 13 firms represented 47% of the year’s transactions.

The top 13 acquirers executed 123 transactions in 2022, representing 47% of the year's total. As a reference, the top 10 acquirers of 2021 accounted for 46% of transactions for that year. Mercer, at the number-two position in 2021, executed 16 transactions and Wealth Enhancement Group held the top position with 17 transactions that year. Missing from the 2022 top acquirer list is CI Financial, which held the number-three position in 2021.

Record Year for Sub-Acquisitions

Sub-acquisitions continued to surge. Defined as acquisitions made by firms that were previously acquired themselves, sub-acquisitions have more than doubled over the last two years. In 2022, a total of 57 sub-acquisitions were signed — 50% more than 2021. Sub-acquisitions accounted for 22% of the year's transactions, up from 16% last year.

RIAs making sub-acquisitions are often a good fit for the growing number of sellers with less than \$500MM in AUM. These buyers have the resources from their parent company to purchase other firms and the expertise to operate those firms successfully, whether integrated into their own operations or left to operate independently.

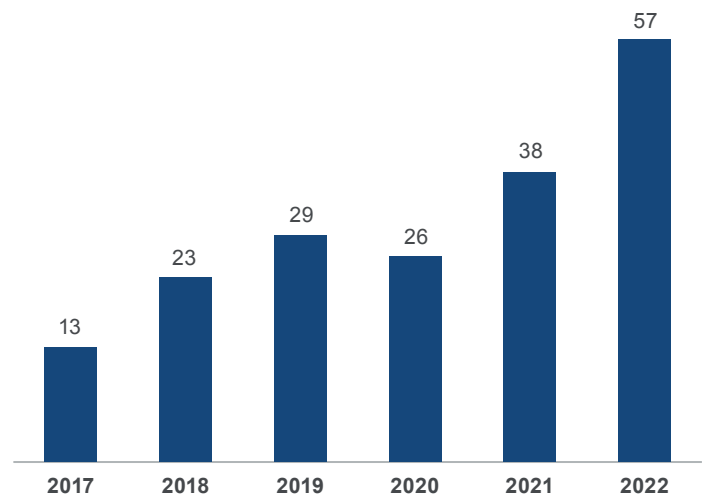
The average size of a sub-acquisition in 2022 was \$470MM in AUM compared to \$933MM for all other transactions in the year (greater than \$100MM and less than \$5B).

The leading firms that supported sub-acquisitions in 2022 were Wealth Partners Capital Group (24 sub-acquisitions), Focus Financial (14), Kestra Financial (8), and Hightower Advisors (4). Among this group, Wealth Partners Capital Group resides in a gray area for our tracking. Their business model, making minority investments in acquisition-focused firms, keeps them in our sub-acquisition category.

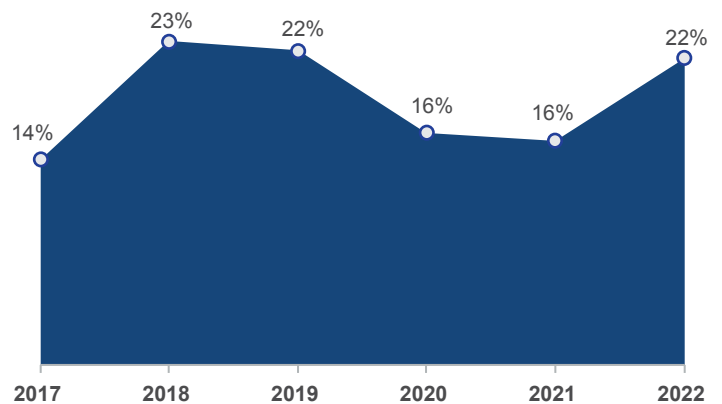
Wealth Partners Capital Group's affiliates were very active, including Merit Financial Advisors, MAI Capital Management and EP Wealth Advisors. Focus Financial Partner firms such as Buckingham Wealth Partners, Connecticut Wealth Advisors, and The Colony Group also executed one or more transactions in 2022. With the addition of David Canter as president, Kestra's Bluespring Wealth Partners is expected to accelerate activity.

Nearly 20 More Sub-Acquisitions Year over Year

Number of sub-acquisitions by year



Sub-acquisitions as a percentage of total transactions



Firms Under \$1B Represent Nearly 75% of Activity in 2022

2022 marked a significant shift in the composition of RIAs selling their firms. Smaller firms sold in greater numbers; larger firm sales slowed.

Firms with assets between \$100MM and \$500MM were the most active and accounted for 50% of total transactions, up from 36% the year before. Their sales numbered 131 — a spike of nearly 50% from 2021.

Mid-size firms between \$501MM and \$1B ticked up slightly in numbers (62 vs the prior year's 56) but stayed even in their share of the market at 23%.

The large \$1B to \$5B sellers slowed their pace, while the mega \$5B+ saw nearly half the volume of the previous year.

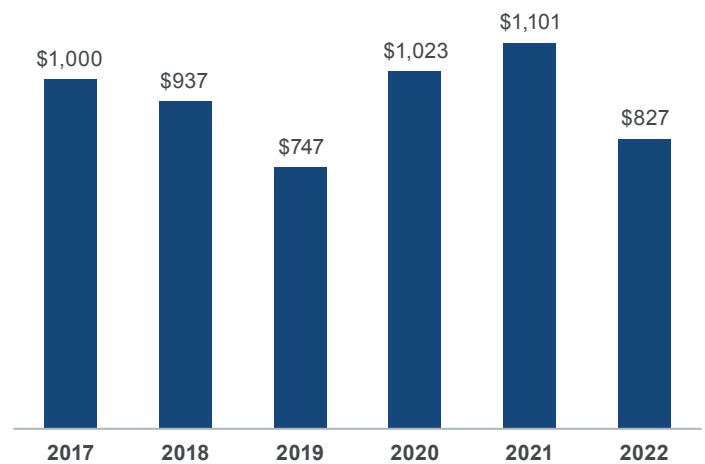
These trends played out as predicted in the *DeVoe & Company Deal Book* from Q3 2020. This pattern of smaller firms becoming more active sellers than larger firms reflects a domino effect on sales in the RIA space: Dominant seller size shrinks in sequential waves from mega firms to large firms, then from large to mid-size firms, and finally from mid-size to small firms. This sequence occurs as firms that are considering a sale gain greater conviction when they see their larger peers selling.

Another contributing factor to the surge in smaller sales is an increase in serial acquirers concentrating on smaller sellers, with the intention of lowering the average multiple paid in their overall portfolio (as smaller firms typically sell at lower multiples). Throughout the year, transactions by RIAs with assets between \$100MM and \$500MM increased steadily, from 26 in the first quarter, 34 in the second, 33 in the third and 38 in the fourth.

The shift in seller complexion naturally compressed the average size of sellers. In 2022, the average AUM of sellers dropped below \$1B, to \$827MM. As a reminder, DeVoe & Company excludes sellers with greater than \$5B in AUM from its average size calculation, thereby eliminating the impact of outliers.

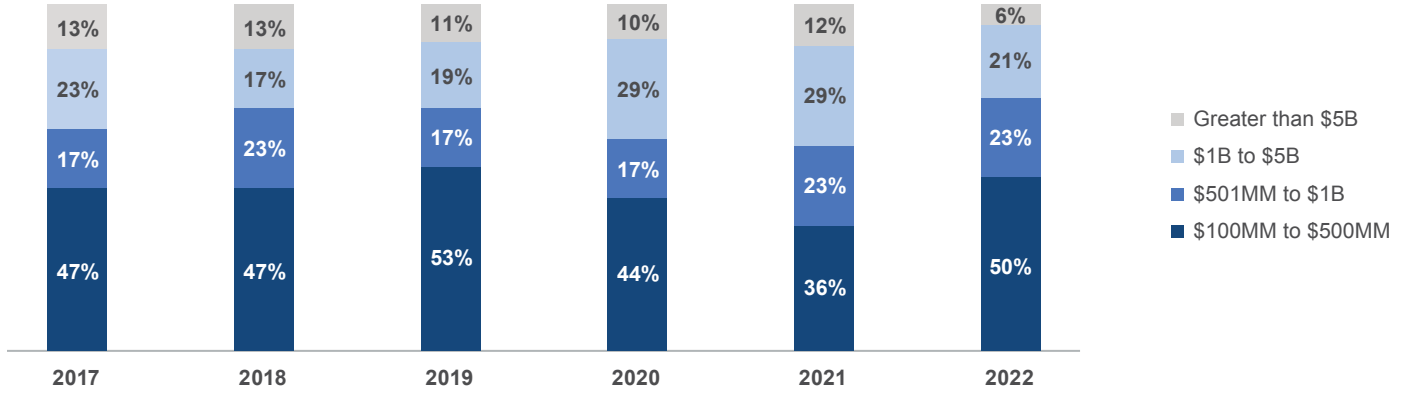
Average Seller Size Drops Below \$1B

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

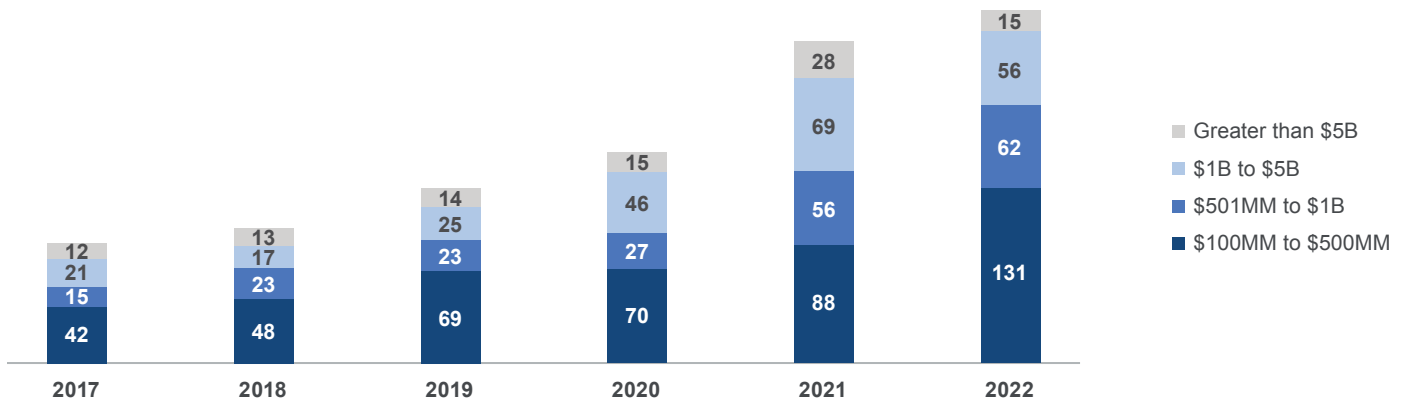


Small Firms Account for Half of 2022's Transactions

Percentage of total transactions by seller AUM



Number of transactions by seller AUM



Looking Ahead

The recent decline in activity may be a precursor to near-term volatility. The macroeconomic environment is likely to be volatile for some time, which will subsequently push and pull RIA M&A activity.

RIA owners themselves have mixed views of the future. Our latest *Annual M&A Outlook Report*, based on a survey of RIA owners and senior executives (responses primarily in the summer/early fall of 2022), showed varying expectations. Forty-two percent of advisors expect an increase in M&A activity, though not a big one; one-third anticipate little change and one-quarter expect a decline.

In our view, over the mid- and long-term, RIA M&A activity is likely to continue its upward arc. With the average age of RIA owners in their early 60s, a retirement wave is a pressure point that will methodically push more owners toward a transition. If internal succession is not planned well in advance, an external sale becomes the viable alternative. In addition, the scale attraction of merging with another firm or joining a much larger firm continues to attract RIA leaders to consider a partnership.

As always, our advice to sellers (and buyers) is to not try to time the market. Business and life decisions should take precedence over one's hopes or the expectation that a better valuation is just a short time away. We architect deal structures that can mitigate risks and provide appropriate upside when markets return. Start with what is most important strategically for you, your staff and — generally above all — your clients. Move forward with conviction from there.

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.

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 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 over 20 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 **\$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:

- *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

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