2023: First Annual Decline in Over a Decade for RIA M&A

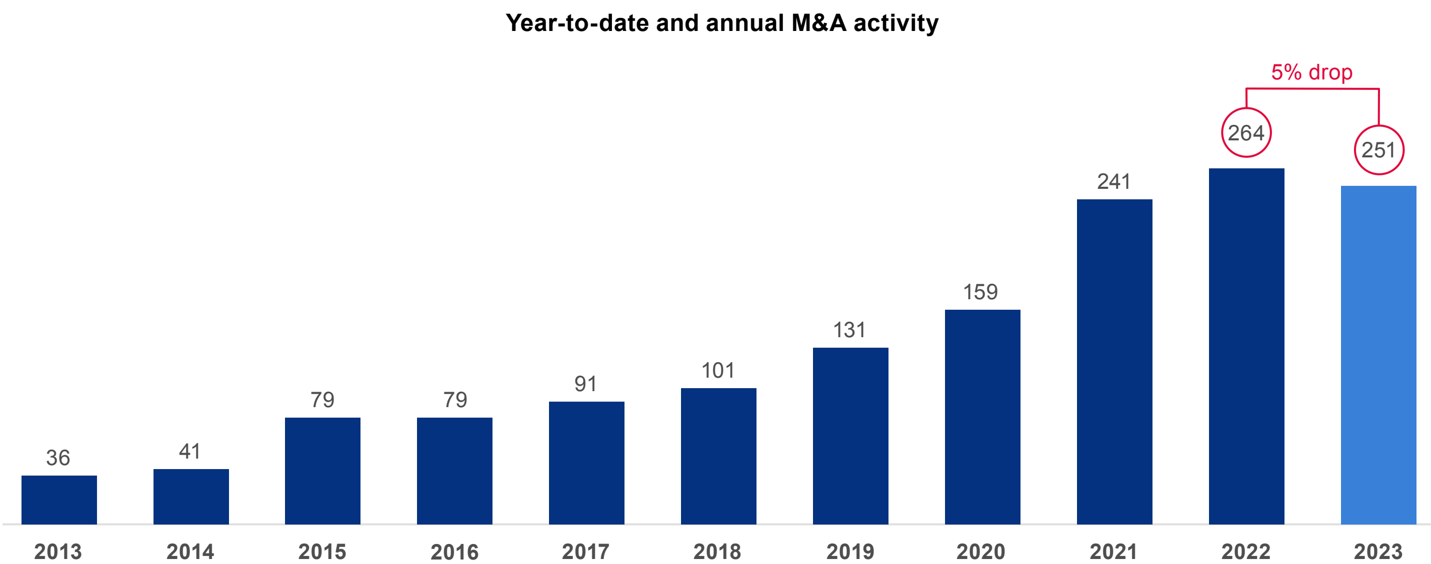
Fourth Quarter's Acceleration Not Enough to Close the Gap

RIA M&A activity slowed in 2023, resulting in the first annual decline in volume in more than a decade. The year's 251 transactions — down 5% from 264 transactions in 2022 — followed nine successive years of record M&A activity.

Macroeconomic factors contributed to the slowdown in activity. The broader context of rising inflation, global economic challenges and the outbreak of multiple wars dampened M&A activity. But the main culprits were high interest rates, which weighed on buyers, increased their cost of capital and negatively affected their debt ratios. Other factors contributing to the slowdown included extended due-diligence processes, evolving deal structures and a greater emphasis on the true value of a buyer's equity.

Sellers continued to express interest in merging into larger firms for succession purposes, to monetize their hard work and/or to gain the benefits of scale. But perhaps due to the perception of lower valuations or the optimism that 'later is better,' sellers made a minor retreat.

First Annual Decline in RIA M&A in Over a Decade



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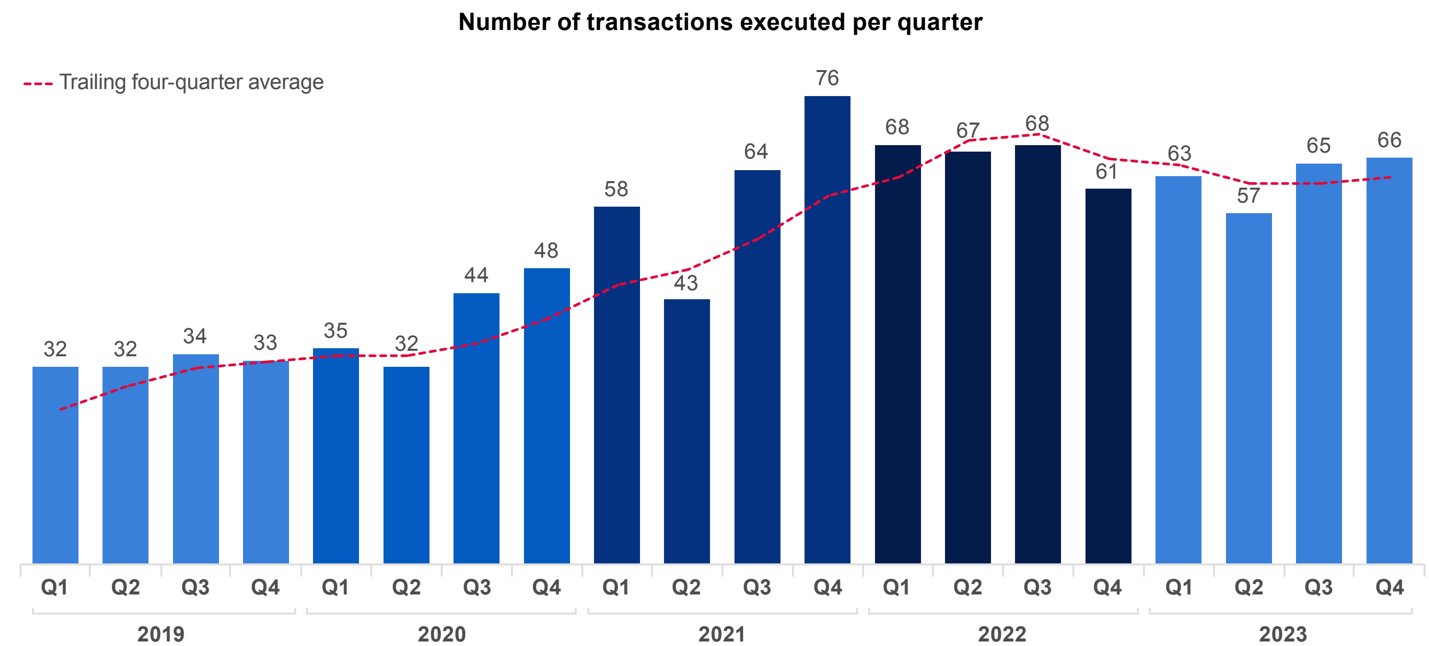
M&A activity accelerated in the fourth quarter, but the rise was not enough to overcome the previous quarters' pullback. For much of the fourth quarter, it was unclear whether the year would end higher or lower vs last year. In the end, Q4 2023 closed with 66 transactions, an increase of 8% over Q4 2022. This was slightly ahead of the Q3 2023 transaction volume (65). Interestingly, this was the first same-quarter-over-quarter increase since Q4 2021.

Putting the year in a broader perspective, 2023 was not a bad year. M&A activity approached 2022's levels, eclipsed 2021's and nearly tripled the transaction volume of five years ago. The seasoned and expanding buyer pool was able to absorb the year's 251 transactions. The current RIA M&A environment remains healthy overall and affords buyers and sellers strong opportunities for partnerships. Attracting talent, expanding geographic reach and seeking growth remain the primary drivers of M&A activity for buyers and sellers alike.

Q4 2023 Activity Surpasses Q4 2022



Succession Planning – An Industry Tipping Point

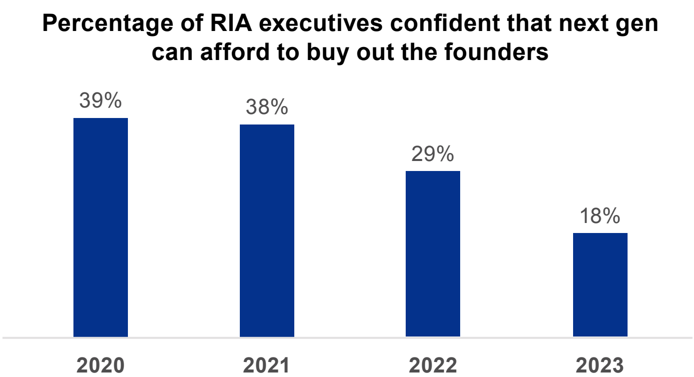
We all knew it was coming: New data indicates we may be entering a succession crisis.

Less than one-fifth of advisors believe that their future internal leaders will be able to afford to buy out the current shareholders. Two years ago, 38% of respondents to *DeVoe & Company's M&A Outlook* survey indicated that next-gen advisors could afford to buy out the owners. That figure dropped to 29% last year, and in this year's release DeVoe & Company will report it has dropped to just 18%. A perfect storm of increasing valuations, higher interest rates and elevated inflation have conspired to drive down the affordability factor to disconcerting levels.

Most founders aspire to sell internally. They generally would like to see their company run by people they have hired, coached and even become friends with. This is an admirable trait of the industry. Selling internally is 'good' for the industry in so many ways.

But the delays of succession planning — including the hard work required to craft and implement these complex plans — have eroded the economic viability in many cases. The increasing valuations for RIAs exceed the grasp of more and more second-generation (and third-generation) parties each year. As a result, one can expect a continued increase in external sales, as founders realize that the internal route is no longer a viable option.

Affordability for Next Gen to Buy Firms Drops Again



The implications or opportunities of this succession-planning crisis differ by role or place in the industry:

RIAs with bias for internal sale: These organizations should gain clarity about whether an internal sale is viable as soon as possible. Owners who "don't know" if their future leaders can afford to buy out the current shareholders would benefit from doing the work to shift into the "know" category. Procrastinating on this technical assessment contributed to the industry's current succession dynamic. If the path to an internal buy-out still exists, owners should act promptly to solidify and execute the plan. Time is the enemy of a successful transition. If the next generation can't afford the firm, then they should accept this reality and move on to Plan B.

Next-generation leaders: Advisors and employees who aspire to own stakes and maintain the independence of their current RIA employer should proactively engage in discussions with leadership. A reminder about the need for succession action and even the desired timing could help ensure the affordability window doesn't close.

META-RIAs and Consolidators: Nearly 90% of RIA transactions in 2023 were executed by repeat acquirers. Many of these organizations have business models that can help absorb the anticipated increase in external succession sales.

RIAs seeking to acquire: Similarly, RIAs that seek to grow inorganically will have an expanding pool of sellers. However, the competition among buyers is stiff, and *aspirational buyers* will often find themselves with nothing to show for their efforts. Those who take M&A seriously and invest in developing methodical plans, strong value propositions, capital and M&A know-how will become *qualified buyers*; positioning themselves to win deals.

RIA owners who wish for their firms to remain independent should create a viable plan today. Time is the enemy, as each quarter of delay puts more pressure on a given firm's affordability factor.

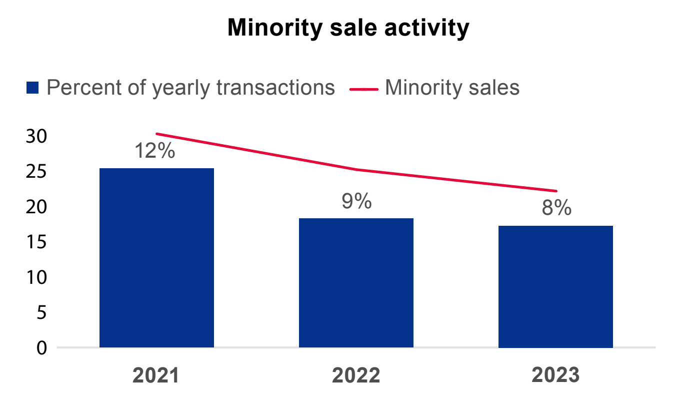
Considerations for Taking on a Minority Investor

By coincidence or design, a growing number of platforms have launched with business models focused on taking minority stakes in RIAs. Given the increasing ‘affordability gap,’ businesses in many cases can help close the gap between the valuation and what the next generation of leaders can afford.

Seasoned industry players like Joe Duran and Karl Heckenberg are two notable entrants. With the knowledge and networks they created while running United Capital and Emigrant Partners, respectively, they are back in business to take minority stakes in RIAs.

Ironically, the number of minority transactions has decreased amid the proliferation of these types of buyers. Over the last three years, minority investments in RIAs have steadily fallen from 12% of all transactions in 2021 to just 8% in 2023 as the nominal number of deals sank, too.

Minority Investments Steadily Decline



RIA sellers choosing to take on a minority investor should do so with their eyes wide open. In reality, the concept of a ‘non-controlling interest’ typically comes with quite a bit of control. These firms and the capital partners behind them have thoughtfully assessed how they can maximize returns while mitigating risks. And that has come through a proliferation of different business models and structures.

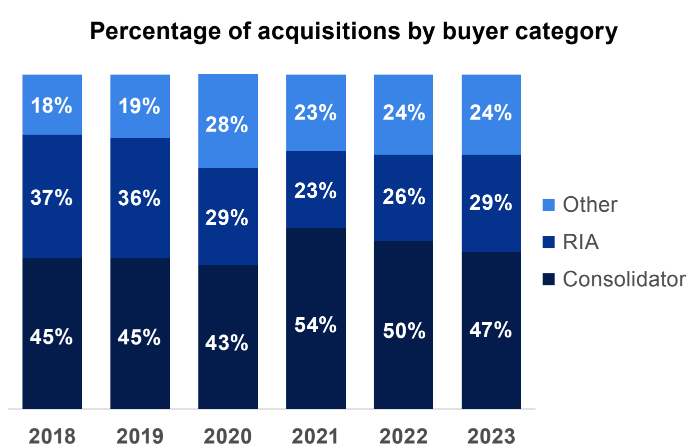
Players who take a stake in revenue are going to have a very different relationship with a partner than another player who has determined that an embedded ecosystem of vendors is the best approach. Many models can have great benefits to the selling advisors and G1 (first generation), which come at the expense of G2 or G3 (second and third generation). In general, minority-stake investors require degrees of control over a number of key decisions. These items range from approving certain hires, to profitability or debt requirements, to the ability to block the sale of the firm in the future.

In many regards, selling a stake to a minority investor can be as or even more complex than selling a majority or full stake. As with any major decision, advisors should start with their long-term goals in mind and carefully assess how this partner may influence the achievement of such goals.

Consolidators Lose Share to *RIAs* Among Buyer Categories

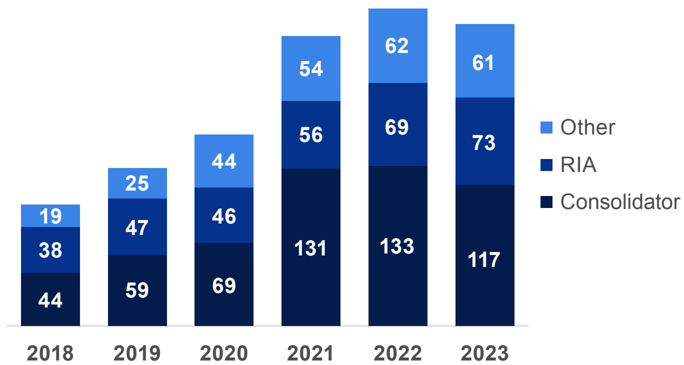
2023 ended with notable changes in market penetration of the three primary buyer categories. The year marks the second-consecutive year that the share of transactions executed by *Consolidators* declined. This decline was absorbed by *RIA* buyers. So, are *RIAs’* value propositions resonating more with sellers? Or are *RIA* buyers getting better at winning deals from *Consolidators*? Not necessarily.

RIAs Increase Share as *Consolidators* Continue Decline



Consolidators Decline but Still Represent Nearly Half of Transactions

Number of acquisitions by buyer category



Consolidators

Consolidators — companies whose business models are predicated on making RIA acquisitions — experienced a 12% year-over-year decline in M&A activity in 2023. This shift is due to a bifurcation within the *Consolidator* category. After peaking in 2022 with 133 transactions, certain *Consolidators* remain active while others have pulled back. Those maintaining momentum have new or refreshed capital positions, typically with private equity backing.

The group completed 117 transactions in 2023, a material decline from 133 transactions in 2022 and 131 in 2021.

On a percentage basis, *Consolidators* have experienced a steady decline from 54% of all transactions in 2021, to 50% of transactions in 2022, to 47% in 2023. However, *Consolidators* still dominate as the top buyer category in the RIA M&A market. The next-highest buyer group, *RIAs,* represents 29% of transactions.

The group also represents the majority of top buyers. All of the top acquirers (see table) in 2023 are *Consolidators*. The top five most active buyers (and *Consolidators*) of the year are Wealth Enhancement Group, Mercer Advisors, CAPTRUST, Merit Financial Advisors, and Cerity Partners. One of the historically most active *Consolidators*, Focus Financial Partners, concentrated on other priorities in 2023. After being taken private by CD&R, the company prioritized strategy over M&A (they executed no direct transactions during the year).

RIAs

Acquisitions completed by *RIAs* in 2023 were at their highest level in several years. This buyer group completed 73 transactions in 2023, an uptick over the 69 transactions completed in 2022. These firms value the benefits of joining forces with a firm like theirs — but bigger. *RIAs* who sell to other *RIAs* often cite that they want to join an organization where they get some of the benefits of scale, but where they still have a seat at the table.

RIA buyers accounted for 29% of all transactions in 2023, a 3% uptick from 2022.

Other

The final buyer category — *Other* buyers — held steady in 2023. The *Other* buyer category includes everything besides *Consolidators* and *RIA* buyers. The key sub-categories of *Other* buyers include private equity firms, broker-dealers, insurance/benefit companies, diversified financial services, asset managers, accounting firms and banks. This buyer category's deal activity was nearly identical to the previous year in both transaction volume and market share.

Top Acquirers in 2023

11 firms with six or more transactions

Company	Number of Transactions in 2023
Wealth Enhancement Group	16
Mercer Advisors	9
CAPTRUST	9
Merit Financial Advisors	8
Cerity Partners	7
Beacon Pointe Advisors	7
Creative Planning	7
Buckingham Strategic Wealth	6
Hightower Advisors	6
Savant Wealth Management	6
Waverly Advisors	6

Within the *Other* category, private equity took the top spot for the year. Private equity firms continue to be attracted to the RIA model due to its high profitability and differentiated business model. Perhaps more importantly, the private equity model works in this business. For over a decade, private equity has had a relatively clean path. Private equity firms were responsible for 17 transactions, or 28% of the segment's total. This is up from 11 transactions and 18% of the segment's total in 2022.

The Insurance/Benefit company sub-group, with 15 transactions, was the second most active sub-group within *Other* for the year. On a percentage basis, the group was higher compared to 2022, representing 25% of transactions within *Other* in 2023 vs 21% in 2022.

Companies in the Diversified Financial Services sub-group were the third most active with 11 transactions. However, compared to 2022, this was a significant drop from 23 transactions. Within *Other*, this group dropped from 37% of transactions within the segment in 2022 to 18% in 2023.

The top 11 acquirers, all *Consolidators*, executed 87 transactions in 2023. Top acquirers in 2022 were more active than they were in 2023. Five firms made 10 or more acquisitions in 2022; only one firm — Wealth Enhancement Group — made more than 10 acquisitions in 2023.

Sub-Acquisitions Achieve Record Volume

Acquisitions by firms that were previously acquired themselves — known as sub-acquisitions — climbed to 21% of transactions in 2023, steadily rising from 15% in 2021. This surge in activity is part of a healthy trend in the RIA M&A landscape and reflects the ease at which larger firms can tuck in smaller targets. Sellers, in turn, benefit from becoming part of a bigger enterprise, with greater scalability, more sophisticated technology and many other advantages.

On a numerical basis, there were 53 sub-acquisitions in 2023, only a 4% increase relative to 2022 but over 50% greater than the 35 transactions in 2021.

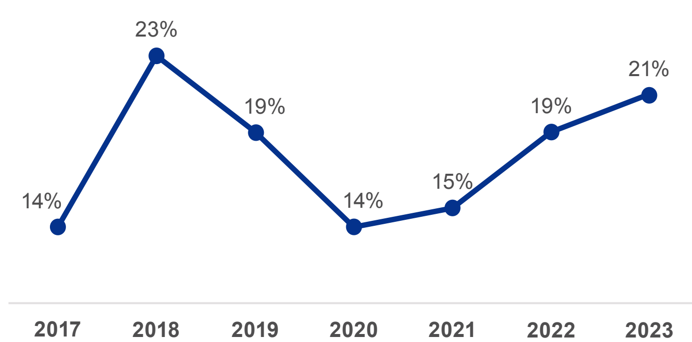
RIAs making sub-acquisitions are often a good fit for the growing number of sellers with less than $500MM in AUM. These buyers have the resources from their parent company to purchase other firms and the expertise to operate those firms successfully — whether integrated into their operations or left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

As these types of transactions are typically smaller, the increase in sub-acquisitions is related to the compression of the average AUM of sellers. The average AUM of RIAs acquired as a sub-acquisition was $396MM in 2023, down sharply from $663MM in 2021. All other types of acquisitions in 2023 had an average AUM of $949MM.

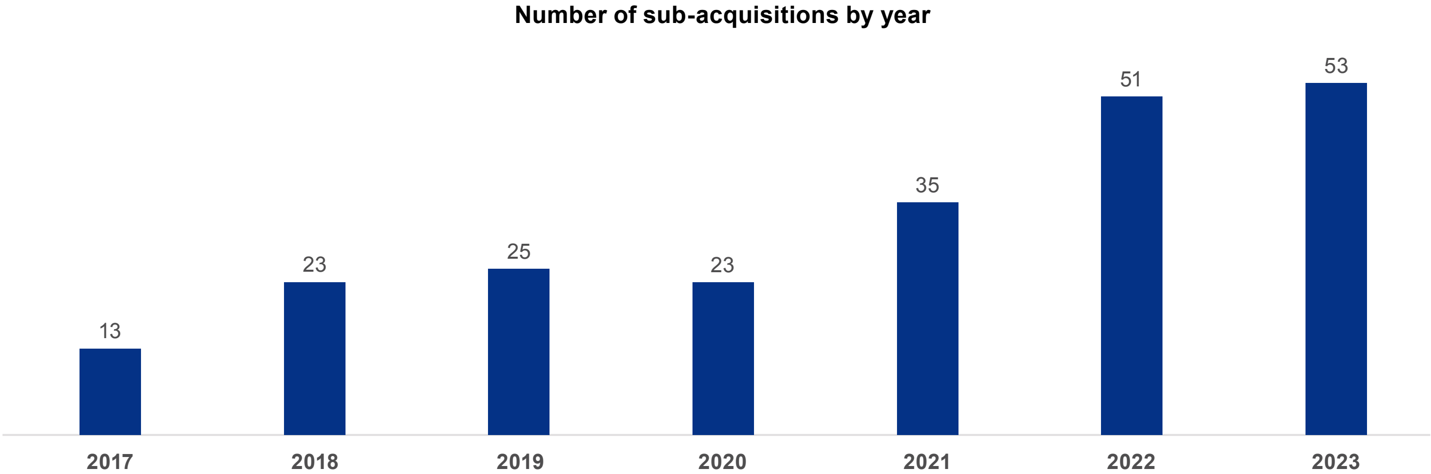
In 2023, the leading firms that supported sub-acquisitions in 2023 were Wealth Partners Capital Group (WPCG) (20 sub-acquisitions), Focus Financial Partners (11), Emigrant Partners (6) and Merchant (6). Among this group, WPCG resides in a gray area for our tracking. Their business model — making minority investments in acquisition-focused firms — keeps them in our sub-acquisition category.

Sub-Acquisitions Recover from 14% Low in 2020

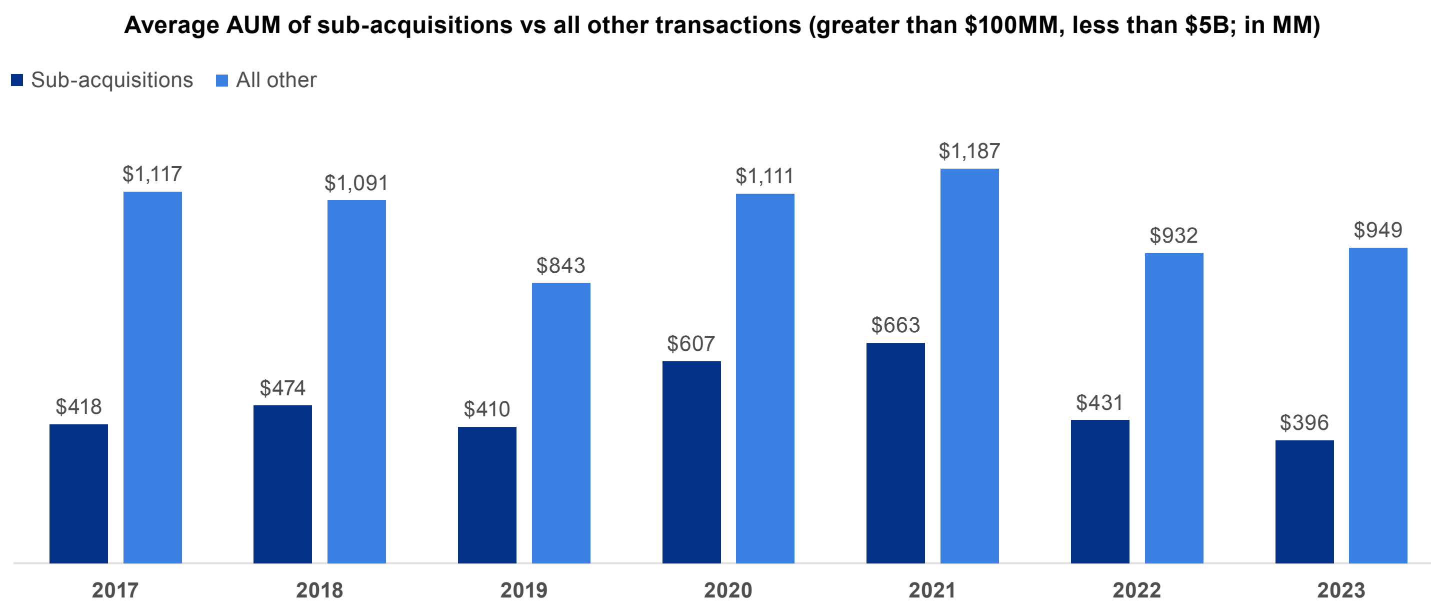
Sub-acquisitions as a percentage of total transactions



Sub-Acquisitions Hit New Highwater Mark in 2023



Smaller Transaction Size Supports Increase in Activity



Larger Firms Dominate as Sellers

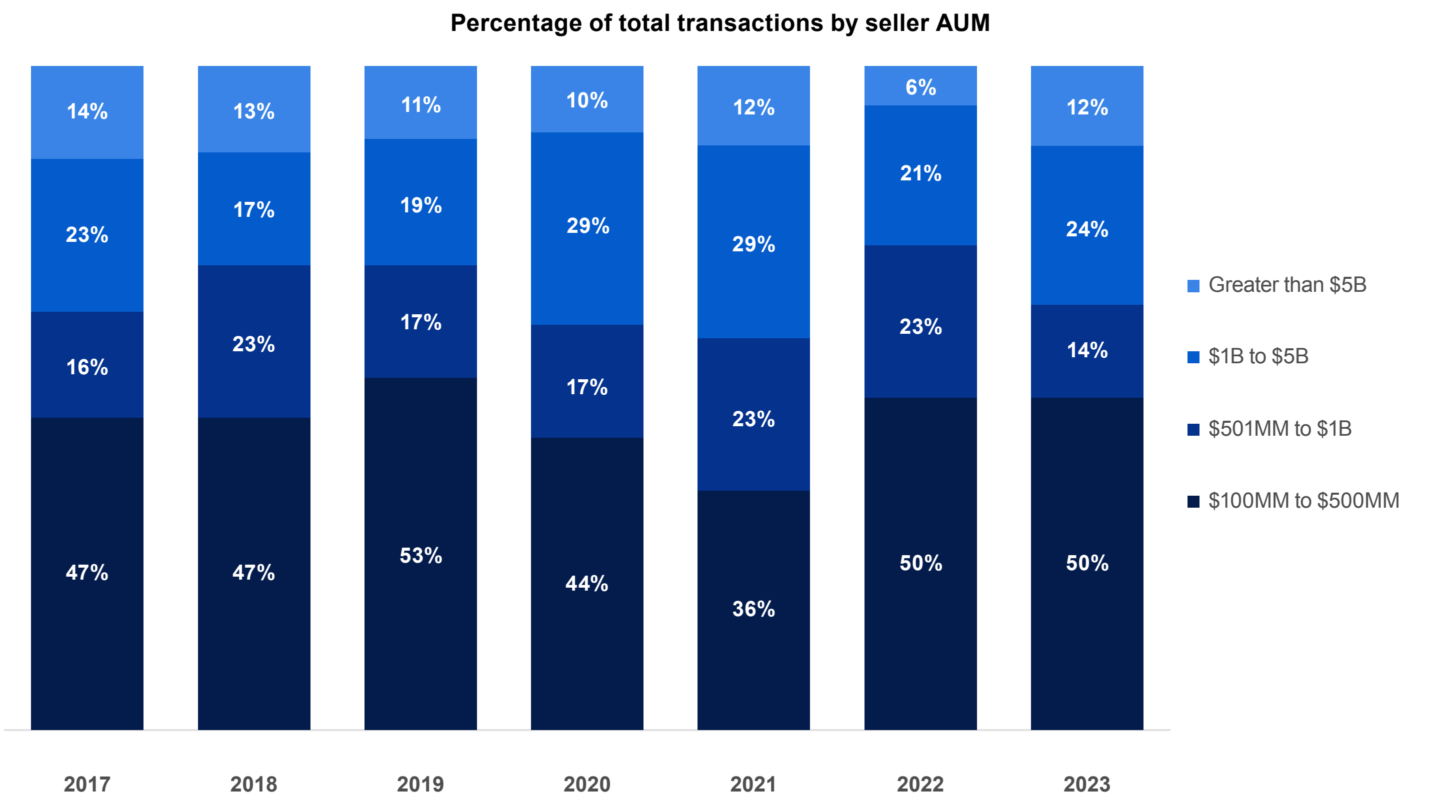
Larger firms surged in 2023. Sellers with over $1B in AUM bounced back from a 27% decline in 2022. As *Consolidators* raised fresh capital, they went big. They focused primarily on the larger firms, pushing up larger seller transactions from 71 in 2022 to 92 in 2023.

Mega-firms — those with $5B+ in AUM — sold in greater numbers. The 31 transactions for 2023 is a calendar-year high for this group and more than double last year's 15 transactions. Private equity buyers have a direct relationship to this increase. Nearly half (42%) of the transactions above $5B were initiated by private equity buyers. This group's activity is also a testament to buyers that are interested in growth and cash-strong businesses.

The large $1B to $5B sellers also increased their activity in 2023. The group's 61 transactions were a 9% increase over the 56 transactions in 2022. On a percentage basis, the group represented 24% of transactions in 2023 vs 21% in 2022. Firms in this size range no longer see themselves as the big fish. The mega-firms have a lot to offer this group in terms of capabilities and scale.

Activity by mid-size sellers ($501MM–$1B) dropped sharply in 2023. The 34 transactions for this group in 2023 was a significant drop from 62 in 2022. On a percentage basis, the group's share of transactions fell to 14% from 23% for the last two years. Their share is the lowest since 2016, when the group accounted for 11% of transactions.

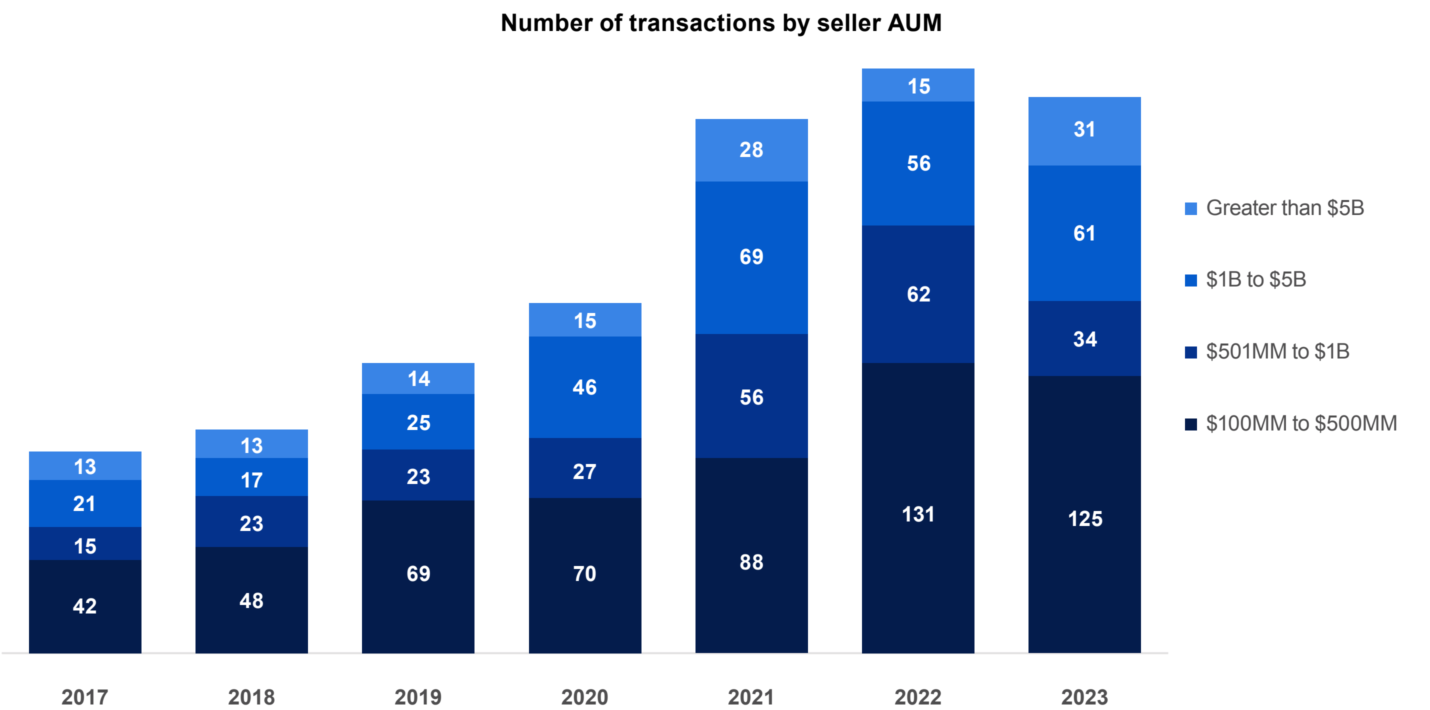
Large Sellers Increase Activity in 2023



Small firms — those between $100MM and $500MM — ended the year with a similar percentage share (50% for 2023 and 2022) but slightly fewer transactions than last year. This group posted 125 transactions in 2023 compared to 131 transactions in 2022. The momentum of sales activity by this group started once COVID slowed, and it hasn't let up since. The experience of COVID and needing to shift 100% of a team's focus to clients compressed sales of sub-$500MM firms. 2021 was a low point with firms in the $100MM to $500MM range, representing only 36% of all transactions. In all other years since 2017, this group has been in the mid-to-high 40s and low 50s for percentage share.

Sales at the small end of the spectrum are likely to maintain momentum. These firms seek to expand capabilities for clients, leverage the infrastructure of a larger firm, and put themselves — sthe owners — on a path toward retirement. They also can be purchased at lower multiples relative to larger firms, and they are generally easier to integrate. Small-firm activity is also related in part to the trend in sub-acquisitions discussed earlier in this report.

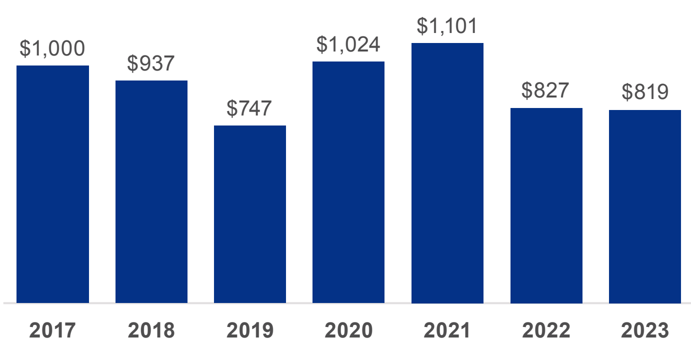
Small Firms Continue Momentum as Sellers



Intuitively, one might assume that the surge of larger sellers coming at the expense of mid-size sellers would boost the average seller AUM. That logic did not play out in 2023. The complexion of sellers within each segment was lower than the previous year, keeping the overall average nearly flat relative to last year. At $819MM, the average AUM of sellers held steady in the low-$800MM range. (DeVoe & Company excludes sellers with over $5B from this calculation to eliminate the impact of outliers.)

Seller Size Consistent with 2022

Average AUM of sellers
(Sellers with AUM greater than $100MM and less than $5B; in MM)



Conclusion

2023 marks the first decline for RIA M&A in over a decade. Although this decline can't be ignored, the decrease was neither a material decline (just 5%) nor a likely harbinger of a broader mid-term or long-term decline. This falloff in deal activity was driven by macroeconomic conditions and seller psychology, which are rational near-term compressors.

Overall, there will be a growing supply of RIA sellers due to the lack of succession planning and aging demographics of founders. But the industry is also becoming more industrial-grade, which will push more firms to join forces with stronger players. Advisors are wired to serve their clients well, and more and more will decide that joining a bigger firm with more services, capabilities and efficiency is the best way to do that.

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 deal activity and analyzes the key trends to bring you deep 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 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 onthe 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 executed more than 700 engagements in the last several years, supporting firms managing $100MM to over $250B in AUM

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.

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
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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

Contact your relationship manager or specialist directly, or call our RIA support line at (800) 421-5450.

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