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RIA M&A Bounces Back

Strongest quarter on record follows Q2 lull

The anticipated rebound in RIA M&A has arrived. After a short Q2 breather, a burst of transactions in Q3 2020 broke the previous record for quarterly volume. In the initial days of the COVID-19 crisis, few could have imagined such an active M&A market. But, the initial projections of transmission and death rates have yielded to the less dire (yet still somber) reality. Buoyed by a bullish stock market, RIA M&A activity has resumed the pre-COVID trajectory of accelerating growth — picking up where it left off at the start of the year.

The 44 transactions posted during the period surged past the prior quarterly record of 35, set just two quarters ago. However, the ebbs and flows of activity are better understood when examined through a monthly, as opposed to a quarterly, lens as well as through a deeper look at activity by size of firm.

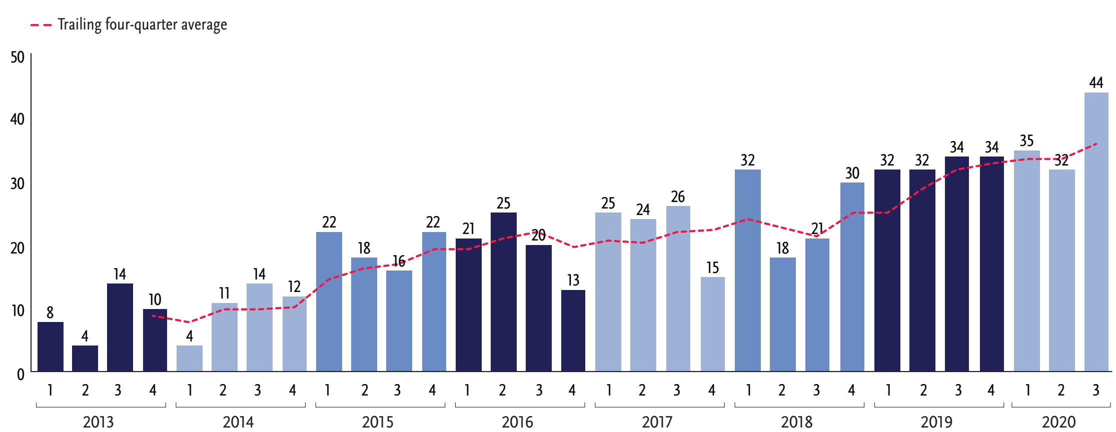
The year started strong: January 2020 was the most active M&A month the industry had ever experienced. Then, as the reality and fear of COVID spiked, RIA transaction volume dropped. Overall monthly volume remained below the 2019 average from February through May. A steady increase drove the record third-quarter number. Emerging from a V-curve of volume, this incline is comprised of two trends, which are related to the size and attributes of a given seller's management team (more on page 3).

Now, with 111 transactions through the first three quarters, the industry is poised to surpass the annual record of 132 transactions set last year.

"The current level of activity was a surprise to many," said David DeVoe, Founder and CEO, DeVoe & Company. "RIA M&A activity is now running red hot and likely to maintain this trajectory for the balance of the year."

Industry Surpasses 40 Transactions in a Quarter for the First Time

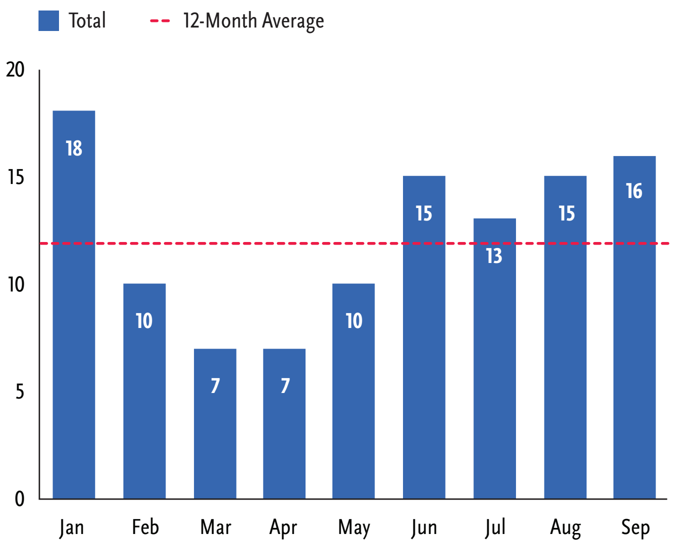
Number of transactions executed per quarter



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

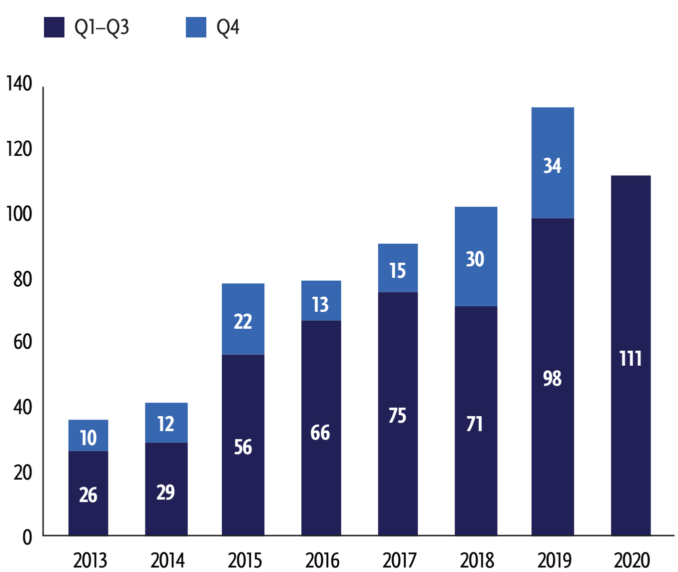
Year-to-Date M&A Activity: Post-COVID V-Curve

Number of monthly transactions – All RIAs



M&A Activity Passes 100-Deal Milestone in Q3

Annual M&A activity with Q1–Q3 breakout

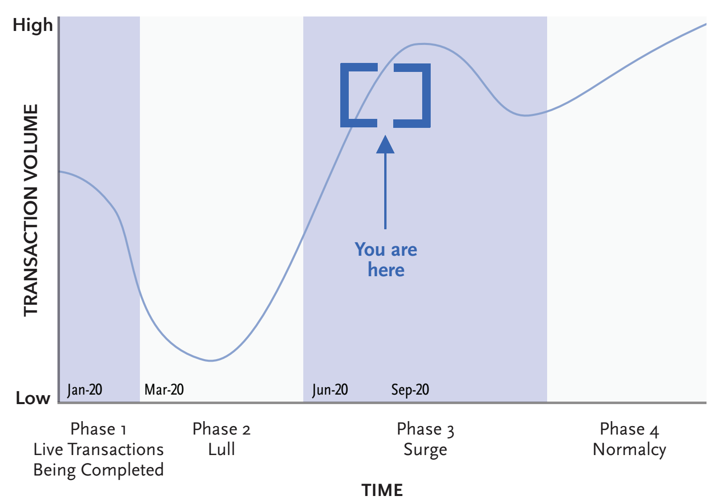


RIA Industry Strongly in Phase 3 of *DeVoe's Four Phases of Post-COVID M&A*

As COVID emerged as a significant crisis, DeVoe & Company predicted four distinct phases of M&A activity. The *Q1 2020 RIA Deal Book* outlined the model of reaction as: an arc from *Live Transactions Being Completed* (Phase 1) to a *Lull* (Phase 2), followed by a *Surge* (Phase 3) and eventually a *Return to Normalcy* (Phase 4).

So far, the market activity has tracked according to the forecasted arc. Deals negotiated pre-COVID were finalized in the initial period, as the industry entered the *Lull* in February. As soon as COVID became a newsworthy story, most small and medium-sized advisors stepped away from the negotiating tables to focus on taking care of their clients.

Four Phases of Post-COVID RIA M&A

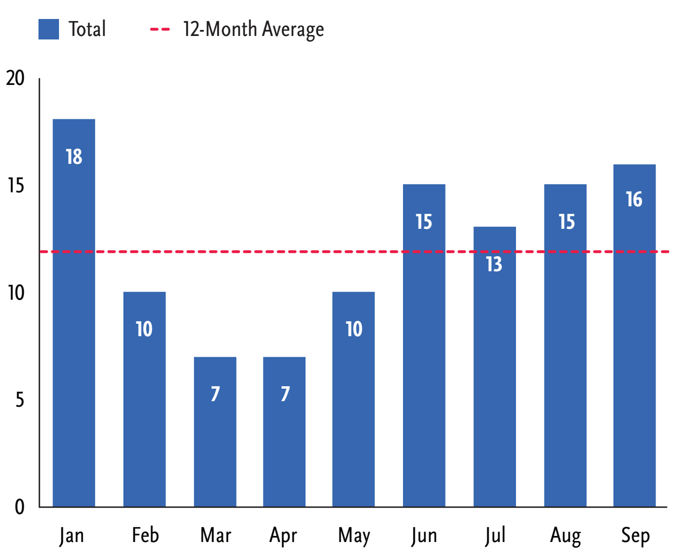


Many industry participants and observers had a prudent expectation that the *Lull* would last for several quarters. In the *2020 DeVoe M&A Outlook Survey*, nearly 85% of advisors said they expected the slowdown to last through at least Q3. "This was a natural reaction at the height of the market downturn," said DeVoe. "Advisors were not only trying to make sense of this black swan event; they were also working around the clock to serve clients."

As advisors calmed and recalibrated clients, and the country became accustomed to the new abnormal, overall numbers started to trend upward. Monthly transactions started to climb in May. Since June, the transaction volume has been at or above the 2019 monthly average. Deals that stalled in the early days of COVID regained momentum. And in Q3, the industry experienced a new vintage of transactions that were started during — and perhaps were the result of — COVID. Many firms without succession plans experienced a shot across the bow with the mortal reality of COVID. The subsequent actions some advisors took are now evidenced in the RIA M&A numbers.

Year-to-Date M&A Activity: Post-COVID V-Curve

Number of monthly transactions – All RIAs



Now, the industry is well into Phase 3. The surge of activity has led to a doubling of activity from the lows of March and April to the new pattern of August and September.

Coming full circle, responsible advisors are now focusing more intently on their own succession and continuity planning. This new rise in transactions may be the beginning of a trend DeVoe & Company has been predicting for some time: A wave of RIAs without succession plans determining external sale is the best or only option.

Small and Mid-Sized Sellers Catch Up

The early part of the *Surge* can be attributed to large sellers. These larger firms didn't pause or delay their plans due to COVID. As matter of fact, transactions by sellers with $1B or more in AUM shot up and have remained consistently high in 2020. $1B+ transactions spiked 48% higher for Q2 and Q3 vs the same period last year.

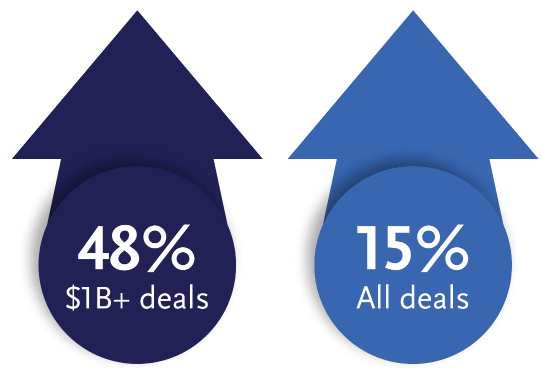
By contrast, firms with under $1B were slow out of the starting blocks. During the second quarter, their activity plummeted by 35% vs Q2 2019. Essentially, the Phase 2 *Lull* can be fully attributed to the drop in small and medium-sized firms' activity.

Recently, this segment has put its M&A activity back into gear. In the third quarter, its volume was 13% above Q3 2019. All boats are rising in Q3.

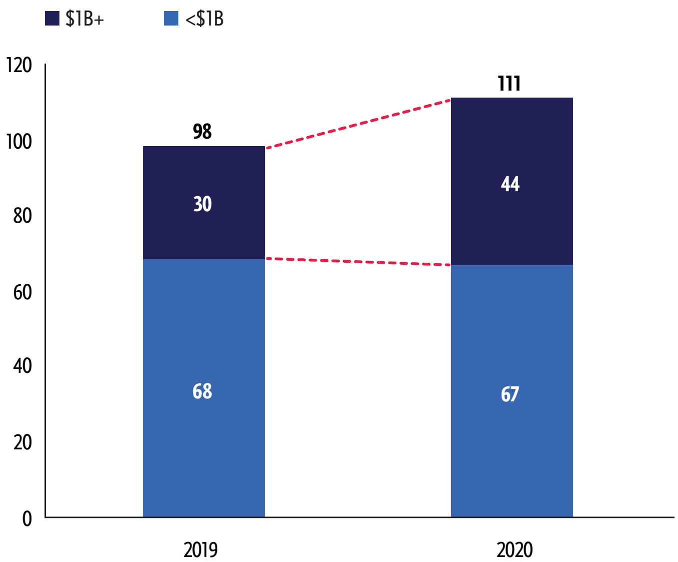
So, what drove the divergence of activity, and how will this likely impact future M&A?

Q2–Q3 2020 vs Q2–Q3 2019

Number of transactions $1B+ vs all transactions

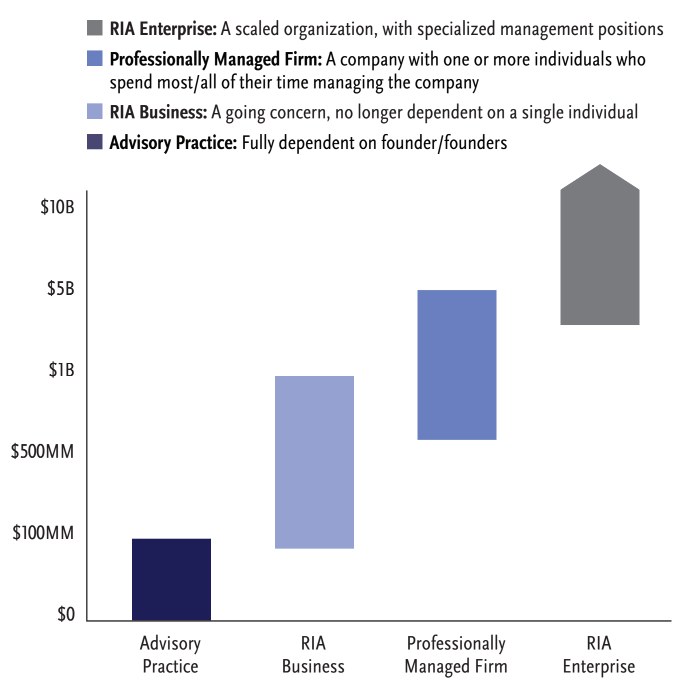


Number of Transactions YTD for AUM Firms $1B+ and <$1B



The $1B AUM breakpoint can represent a key milestone for RIAs. Firms that reach this threshold have amassed a degree of scale. In many cases, $1B+ firms have evolved beyond an *RIA Business* and operate as a *Professionally Managed Firm*. The evolutionary step can have profound implications for an RIA — which are on clear display within the context for the recent M&A activity.

The Evolution of the Advisory Practice



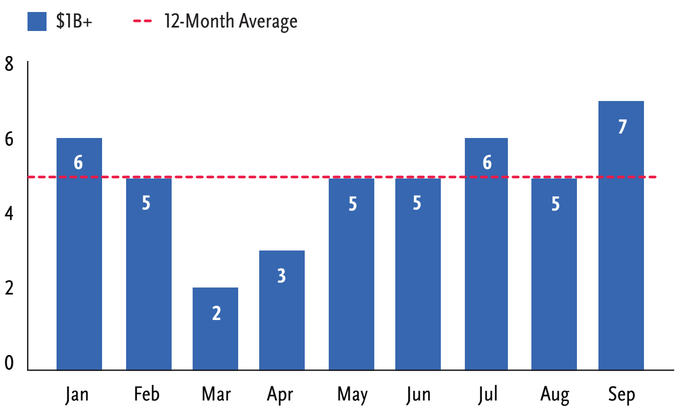
As noted on the next page, these larger sellers drove the lion's share of activity since COVID struck. Having management teams exclusively dedicated to managing the business, the larger sellers didn't miss a beat due to the pandemic. Their management teams had the ability to continue an unwavering focus on running the business and making strategic moves. In many cases, these moves occurred not only in spite of the pandemic but also because of it. Firms with professionally managed teams paused as they sought greater clarity on the impact of COVID and then started taking action.

By contrast, firms that do not have a full-time professional management team experienced delays with their succession and M&A activities. These firms are run by principals who split their time between serving clients and running the business. So, when COVID hit they turned their undivided attention to serving clients through the crisis. When you personally have to serve clients, there simply isn't much time to focus on M&A activities. The transactions in the under $1B segment for February through May fell well below the 2019 average.

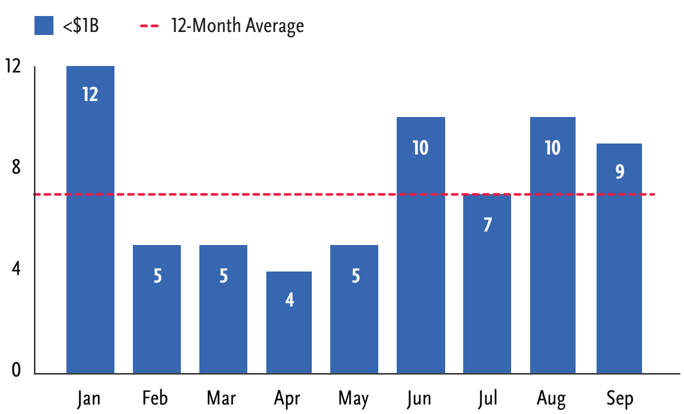
Once advisors rebalanced client portfolios, recalibrated financial plans and allayed fears, the principals of these firms were able to shift back to running the firm and making strategic decisions. And clearly, M&A was top of mind. Firms with under $1B have joined their larger brethren in the recent flurry of activity. The result: Monthly volume was at or above the 12-month average from June through September.

Year-to-Date M&A Activity: Post-COVID V-Curve

Number of transactions for firms greater than $1B



Number of transactions for firms under $1B



Given the above trends, the average size of an RIA seller has increased significantly in 2020 compared to prior years. The year-to-date average AUM for transactions greater than $100MM and less than $5B stands at $1.04B, up from the $743MM average in 2019. The 2020 YTD average has bounced back to the peak years; in 2016 and 2017 the average AUM of sellers was around $1B before it steadily declined.

In terms of total transactions, $1B+ deals in Q2–Q3 2020 comprised 41% of the total pie vs only 32% in Q2–Q3 2019. Transactions under $1B were essentially flat for the comparative period.

Although the divergence in activity has compressed, the divergence in seller rationale will likely continue. Both segments are often seeking to gain the power of scale through a sale. They are joining forces with larger companies with the intention of serving clients better — and to serve more clients. In many cases, larger firms are also seeking to solve an economic challenge. And small and medium-sized firms are seeking successors. They are transacting because they often don't have full confidence in G2's (the next generation's) ability to run the firm — or in some cases even 'someone' to be the successor (see the *DeVoe Human Capital Report*, "It's Time for a Human Capital Revolution").

Consolidators Maintain Steady Momentum Among Buyer Categories

RIAs and *Consolidators* continued to be active buyers, representing nearly 80% of all transactions year to date. Historically, these two categories have been in the dominant positions as buyers of choice. *Consolidators* of late have made incremental gains, mainly at the expense of the *RIA* buyer category. The *Other* category has picked up some of the difference. But overall, all boats are rising as each category (with the exception of *Banks*) is increasing the number of nominal transactions.

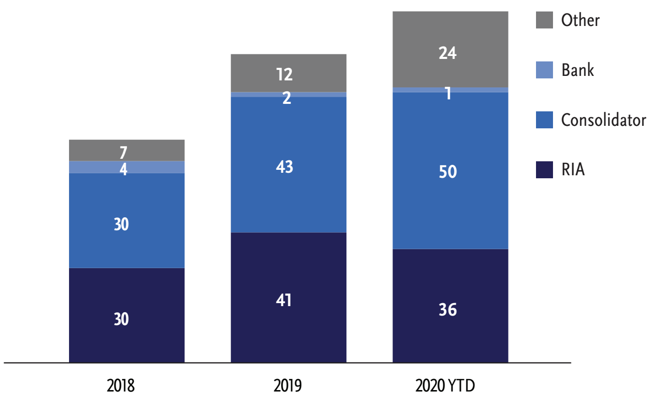
Consolidator buyers were responsible for 45% of transactions YTD, up from 40% in 2018. Post-COVID, scale has become an even more important driver in decisions to sell. *Consolidators* — with resources, teams and platforms — have an attractive solution in this regard. They also have the financial backing to support a high volume of transactions (and arguably higher valuations), as well as internal 'deal teams' that are focused full time on M&A. As a result, *Consolidators* have increased their share a couple of percentage points per year.

RIAs experienced the opposite effect, with a 34% share YTD, down from 42% in 2018. As discussed above, smaller and mid-sized firms in the *RIA* buyer category turned their focus from M&A during the height of the pandemic. This effect has dragged down their involvement in activity as either buyers or sellers.

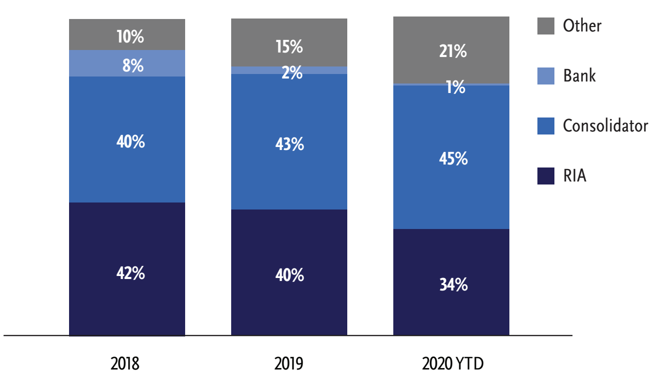
The *Other* buyer category — which comprises buyers that are not *RIAs, Consolidators* or *Banks* — has seen a surge. This group's share has shot up to 21%, an 11-percentage-point increase from 2018. Within this category, private equity firms and Canadian financial services firms stand out in their level of activity.

Consolidators Gaining Share

Number of acquisitions by buyer category



Percentage of acquisitions by buyer category



Lessons Learned from Top Acquirers

The list of top acquirers demonstrates how the *Consolidator* model is resonating with RIAs.

In the list of firms with four or more RIA acquisitions so far this year, six of seven are *Consolidators*. Interestingly, most of these *Consolidators* were previously *RIAs*. During the last five years or more, many leading RIAs have shifted more of their energy toward acquiring RIAs. Creative Planning, Mercer Advisors, Buckingham and CAPTRUST were all garden-variety RIAs in their earlier years, and eventually acquisitions became more and more core to their business strategy. When DeVoe & Company believes that making RIA acquisitions has become a core plank in a company's strategy, we re-categorize them as a *Consolidator*.

2020's Leading Acquirers

Firms with four or more transactions YTD

	YTD	Q3
Creative Planning	8	4
HighTower Advisors	7	5
Mercer Advisors	6	3
Buckingham Wealth Partners	4	2
CAPTRUST	4	1
Emigrant Partners	4	1
CI Financial	4	2

In recent years, scale has become a dominant driver in deciding to sell. Many successful acquisition-focused *Consolidators* and *RIAs* demonstrate to would-be RIA sellers how their scale can make the sellers' businesses better.

As a business scales in size, the organization will often become more streamlined, build a broader set of services and capabilities, and have greater resources. Many RIAs are contemplating joining forces with large *RIAs* or *Consolidators* to benefit from their power of scale. These firms offer technology, training, compliance, operations and more — all of which can free up an RIA principal from getting bogged down by details that are far removed from their main passion of serving clients. The pandemic put an even bigger spotlight on scale for firms that may have already been searching to solve for it.

A key attribute of active acquirers is their experience executing transactions. This decreases the risk profile, at least in many RIAs' minds. Sellers don't want to be a guinea pig for integrations. Well-established processes for onboarding and retention are attractive features in a buyer right now. Two-thirds of sellers that DeVoe & Company support include experience acquiring a certain number of RIAs as a criterion for their buyer profile. The track record of *Consolidators* combined with their story of scale combine into a strong value proposition to sellers.

Conclusion

Today's market is as good as it has ever been for an RIA to sell externally. Valuations are high. Deal structures are attractive. And the need for a succession plan has never been more evident. Perhaps the silver lining of the COVID cloud is that people are engaging with their mortality — and doing so in a constructive way.

The unprecedented activity has been further accelerated by short-term drivers (such as selling before the perceived risk of the tax consequences in the event of a Biden win or an urgent sale to solve a succession gap), in addition to the long-term structural shifts (like the demographics of the industry).

If you are contemplating a sale, it is valuable to consider several factors:

Valuations are not universally high. Many of the most active acquirers have created a machine through careful design that can expand profit margins and accelerate growth. Any time you can expand margins and increase growth, there is a strong rationale for paying high valuations.

But that doesn't mean that every buyer can, should or will pay these high valuations. If the buyer next door can't significantly drive growth and profits of the acquired organization, then they likely can't justifiably write such large checks.

Internal may be the best option. As advisors engage with their succession plans, most will examine internal as well as external options. And the good news for the internal path is that the capital options are better than they have ever been. The industry has experienced a proliferation of capital options — ranging from conventional to SBA loans to private equity to passive capital — that might enable an internal transaction to occur, when it otherwise couldn't.

Goals and objectives should drive the decision. Many sellers with which DeVoe & Company works initially look at their sale through the lens of 'what is happening in the marketplace.' Their preconceived ideas — on what their role should be, how deal structures work or what degrees of control they want — can put them at a deficit before they start the process. We shift clients to erase these constraints. We start with a white sheet of paper. Then ask: What is best for you? What do you seek to achieve? What could be? Then we start the process of determining the characteristics of the optimal buyer. The seller is then on the path to finding the best possible buyer.

The decision to sell a firm — or even to buy a firm, for that matter — is one of the single most important decisions that a leader will make in their career. This is a game-changing and life-changing event. Careful contemplation and a methodical approach, rooted in clear thinking about goals and objectives, will ultimately yield the best outcome. The best outcome should be true for 10 weeks, 10 months and 10 years. It should also be true for the seller, employees, clients and buyer.

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 over 17 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.

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. Half our team is McKinsey-trained management consultants and the other half is former COO's of $1B+ 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.

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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