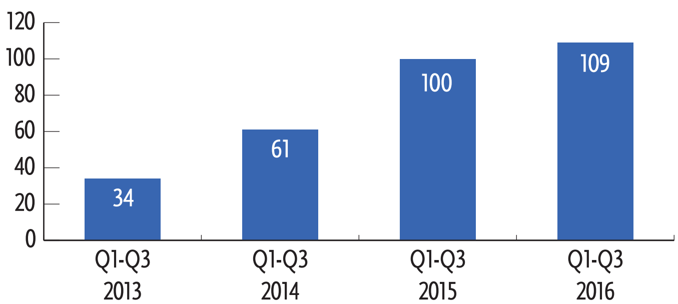
DEVOE & COMPANY

RIA M&A Activity on Track for Another Record Year

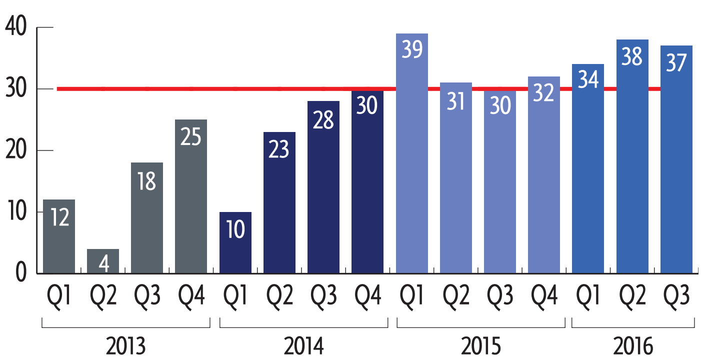
2016 is on track to be an all-time record year for RIA M&A activity. A total of 109 transactions were tracked through the first three quarters of this year versus 100 deals executed during the same period in 2015, according to research performed by DeVoe & Company. 2015 is the high-water mark for RIA acquisition activity in a single year, with a total of 132 deals executed during the 12-month period. It seems likely that 2016 will exceed this number.

2016 on Track for Record RIA M&A Activity



Quarterly M&A activity remained robust, with 37 transactions in the most recent quarter. "Q3 2016 is the eighth successive quarter of 30 or more transactions," said David DeVoe, Managing Partner at DeVoe & Company. "What started as a potential spike in RIA sales, then sustained itself into a perceived surge, and has now evolved into an apparent 'new normal' of heightened M&A activity."

Quarterly RIA M&A Activity is Showing Consistent Strength



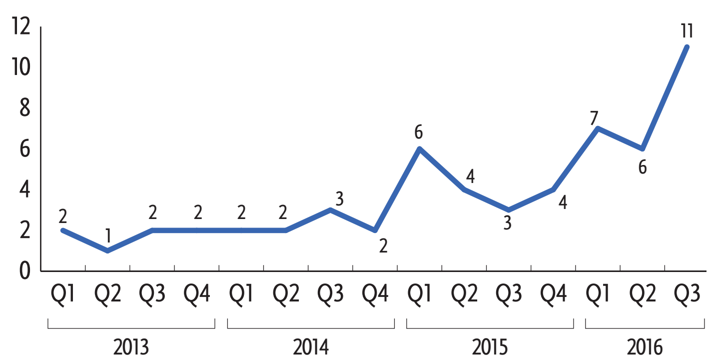
Large Sellers Surging in 2016

Large Sellers, firms managing assets between $1B and $5B in AUM, are selling in record numbers in 2016. This anticipated surge, predicted in the Nuveen / DeVoe Q1 2016 Deal Book, has come to pass and is bearing fruit for hungry acquirers. During the first three quarters of 2016, a total of 24 *Large Sellers* executed transactions, versus 17 in 2015 and only 9 in 2014. This increase in *Large Sellers* has also contributed to the average size of an *Established RIA* seller crossing the $1B in AUM in 2016.

"These highly-prized firms are sought after by the widest breadth of acquirers, including consolidators, banks, RIAs and private equity firms," said Tim Forest, a DeVoe & Company Managing Director. "The sellers generally are large enough to attract the attention of the deepest-pocketed acquirers, but are still within reach of buyers who can't afford $5B+ AUM acquisitions."

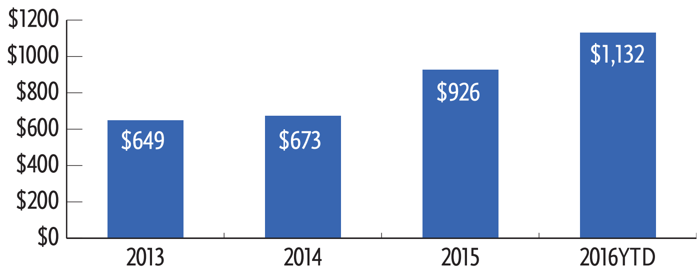
Large Sellers Exiting at Record Pace

(Quarterly sales of RIAs with $1B-$5B in AUM)



Average AUM of *Established RIA* Sellers Breaks $1B

(Sellers with Over $100MM and Less than $5B)



Large RIAs are attractive targets because they have achieved scale, usually have attractive profit margins and generally have stronger management teams. However, a growing number of large RIAs are faced with shallow management benches behind the senior partners – or junior partner pools with limited capital resources. These firms can be worth $12MM to $50MM or more, which can be hard—and often impossible—for employees to afford.

If firms plan early and start migrating equity to junior partners when there is a decade or more before founding principals retire there can be a potential path for a pure internal transaction. Unfortunately, studies typically show that only 30% of RIAs have implemented a written succession plan, which is required to achieve this transition. Starting this process too late often eliminates the internal option and essentially requires an external sale. Not surprisingly, DeVoe & Company's Capital Table Engineering services, where the company determines if and how a *Large Seller* can fully transition equity internally, is the company's fasting growing service offering.

Sub-Acquisitions are Sublime for Consolidators

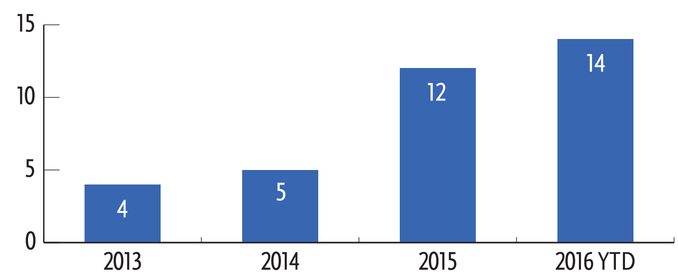
Sub-acquisitions continue to gain momentum and are on track in 2016 to triple the number of similar transactions in 2014, spiking from 5 transactions to 14 or more. During the first three quarters of this year, there have already been more sub-acquisitions than the full year of 2015.

'Sub-acquisition' is defined as an acquisition made by an affiliate of a consolidator; essentially the acquired firm becomes an acquirer. With the parent company's capital backing and M&A expertise behind them, affiliates have the ability to acquire more aggressively and with greater success than a typical RIA.

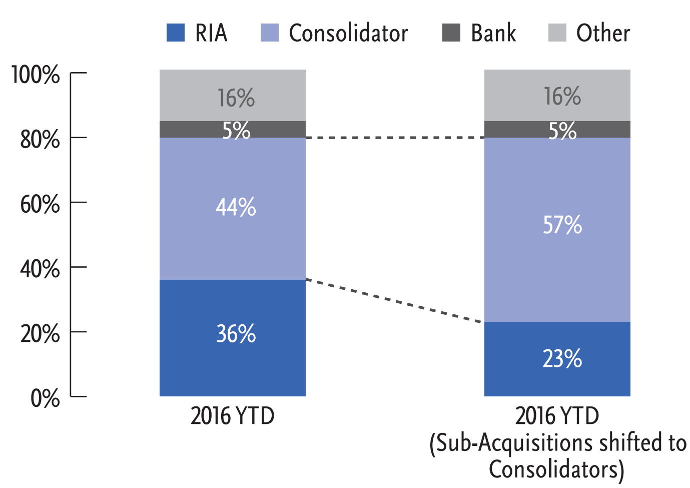
Affiliates and their sub-acquisitions are becoming an important extension to the consolidators' M&A outreach and integration programs. And in some instances, affiliates have become "serial acquirers" themselves, developing their own internal M&A expertise. With consolidator affiliates now numbering at over 100 firms across the country, this could potentially have a profound effect on the RIA M&A landscape. Affiliates can ultimately enable consolidators to acquire at an exponential pace, which is starting to emerge in the M&A numbers.

Generally, "acquisitions by affiliates" are categorized as RIA Buyers, because technically an RIA is acquiring the seller. However, crediting these deals to the Consolidator buyer category helps demonstrate the acquisition horsepower of the consolidators. Doing so shifts Consolidators as the benefactor of 44% of the deals in 2016 to 57% during the first three quarters of this year. This intentional evolution of the consolidator model will likely accelerate M&A activity, especially in the sub-$500MM AUM segment.

Sub-Acquisitions Increasing Sharply



Re-Categorizing Sub-Acquisitions Demonstrates the Power of the Consolidator Model



In conclusion, two years of quarterly transaction volume consistently exceeding 30 deals indicates that the industry has likely shifted to a *new normal* of M&A activity. Most industry observers are realizing that it isn't just the demographics of principals that will likely drive a continued increase in sellers, but also that the growing value of "scale". RIAs are demonstrating a heightened interest in outsourcing their compliance, technology and operational functions, and an increased openness to selling or merging to achieve a best-in-class solution.

From DeVoe & Company's perspective, the trajectory of M&A activity is likely to increase for the next five to seven years.

Research Methodology and Data Source:

The DeVoe RIA Deal Book seeks to track all mergers, sales and acquisitions of firms that are registered with the SEC as a Registered Investment Advisor. The report includes all transactions identified with over $100 million in Assets Under Management, based on a recent data source (e.g. SEC IARD website, a press release) in an effort to maintain consistency of data over time. The report includes advisors who leave other financial service institutions to join RIAs and are expected to bring over $100 million in AUM to the new company, as this transition would likely include consideration paid for said transition.

DeVoe & Company Overview

Providing business strategy and M&A consulting services to the wealth management and investment management community

About DeVoe and 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 comprehensive valuation, strategy and M&A advisory services to help you accelerate the achievement of your business goals. Leveraging our team's 75 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 a 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:

- Valuations
- Business Consulting
- Investment Banking

Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to five professionals with 75 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 of our team are McKinsey-trained management consultants and the other half are 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 of the 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 200 engagements in the last several years, supporting firms managing $50MM to over $8B 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:

- *DeVoe RIA Deal Book* – The industry's leading quarterly RIA M&A deal tracker and fact book
- *Succession Planning: Planning Your Future*
- *Putting Strategic Context Around Your Succession Plan*
- *M&A Surges: Why, and Will it Continue?*
- *Options, Options, Options*
- *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.

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