

December 2021

Annual RIA M&A Outlook

Advisors Expect Continued M&A Momentum

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Introduction

RIA M&A activity will continue to accelerate next year.

This is the overwhelming consensus of what advisors believe, according to the results of the DeVoe & Company's fourth annual RIA M&A Outlook Survey.

In this report, you will learn how advisors expect valuations, deal structures, and succession planning to trend. Additionally, you will gain insights into their recent experiences, challenges, and motivations. Finally, you will discover a sense for what they will do next: Trendlines regarding their plans to execute their own M&A strategy, why they are buying or selling, and whether they believe in the power of scale.

DeVoe & Company's annual RIA M&A Outlook Survey provides rich insights into the merger & acquisition trend that is affecting firms of all sizes. The survey, fielded in September and October 2021, examines the expectations, motivations, and fears of RIA leaders. And as always, we ask "so what?" and weave in our best insights and guidance to help you take strategic action.

RIA Leaders Expect M&A Activity to Continue to Rise

Despite eight consecutive record years of M&A activity, advisors believe that we are just getting started. Nearly two-thirds of RIAs responding to the survey believe that RIA M&A will increase during the next year. The recent 30%+ year-over-year increases in M&A volume are seemingly driving expectations of a 'new normal' trajectory, as opposed to anticipating fatigue and a slowdown. Sixty-three percent indicated activity would *rise somewhat or rise considerably* (47% and 16%, respectively).

Advisors expect increased M&A volume for a variety of reasons. High valuations, an aging founder demographic, and the proliferation of serial acquirers are some of the key contributors to accelerating momentum.

Mike LaMena, Chief Executive Officer, Wealthspire Advisors, speaking at the recent DeVoe M&A+ Succession Summit, elaborated further: "Deals beget deals. When RIA leaders see others selling, it causes many to reflect on their situation." In addition to the technical benefits of buying or selling, Mike is tapping into the psychological drivers. There is a sense of FOMO (fear of missing out) that is drawing advisors into the discussions to at least learn about their options. And in many cases, they decide they have found a good partner and transact.

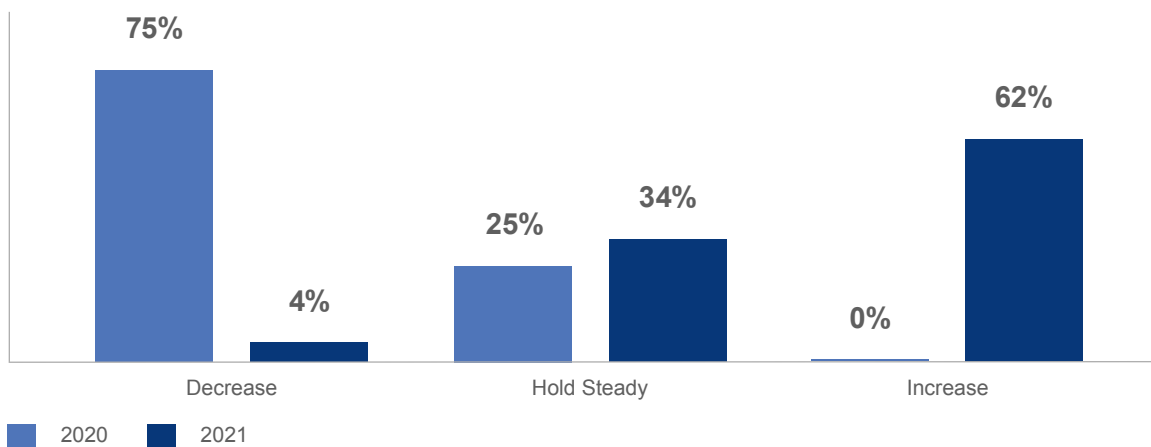
Some advisors, by contrast, expect a flattening of M&A activity to occur. A third of advisors (34%) expect activity to remain at the *current pace*, believing that the industry is due for a breather. Only a few (4%) believe that the M&A activity will *decline*.

The 2021 responses are a stark contrast to those from 2020. Fielded in the early days of COVID, their answers are nearly a mirror image: 75% of advisors *expected a decline* in M&A – and zero projected an *increase*(!). That group seemingly assumed the pandemic would quell these strategic decisions. In retrospect, COVID likely *drove* M&A activity, as advisors reflected on their goals, mortality, and lack of succession plans. And in many cases, the outcome was the decision to sell externally.

"Deals beget deals. When RIA leaders see others selling, it causes many to reflect on their situation."

*Mike LaMena, Chief Executive Officer,
Wealthspire Advisors*

Expectations for the trend in RIA M&A activity over the next year



DeVoe & Company anticipates that RIA M&A will continue to increase for the next five to seven years. The business case for 'private-equity-backed consolidator models' has been validated by 'proof of concept' successes such as Focus Financial Partners and United Capital. RIAs themselves have demonstrated the power of acquisition with a growing track record of successful transactions. Advisors are increasingly seeing a sale as a pathway to achieve succession and / or the power of scale, while in most cases maintaining control over the areas that are most important to them. The convergence of an aging founder demographic with an industry-wide lack of succession planning will further accelerate M&A activity. RIAs are becoming increasingly aware that the next generation of future leaders simply can't afford to buy them out.

The influence of valuation

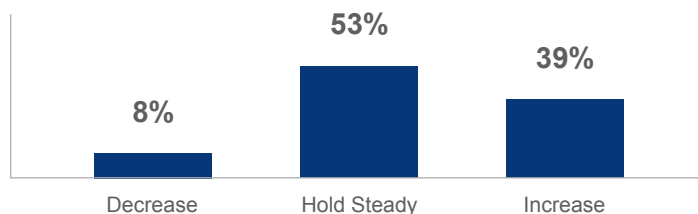
Despite the record high valuations in the marketplace, many surveyed advisors believe there is still more room. Nearly 40% responded that valuations would *increase* in 2022. Perhaps they expect that the well-financed acquirers will bid up one another or that there are still synergies to be unlocked. One respondent was specific: "I believe the attraction of the RIA model has caught the attention of private equity, and with the additional tailwind of low interest rates, valuations are being driven higher."

Just over half of advisors indicate that we have hit a plateau. These respondents believe that the market has achieved

equilibrium and valuations will *hold steady* for the next year.

The remaining 8% have decided that what has gone up, must come down and signal that the valuations have exceeded appropriate norms and will soon *decline*.

Expectations for the trend in valuations over the next year



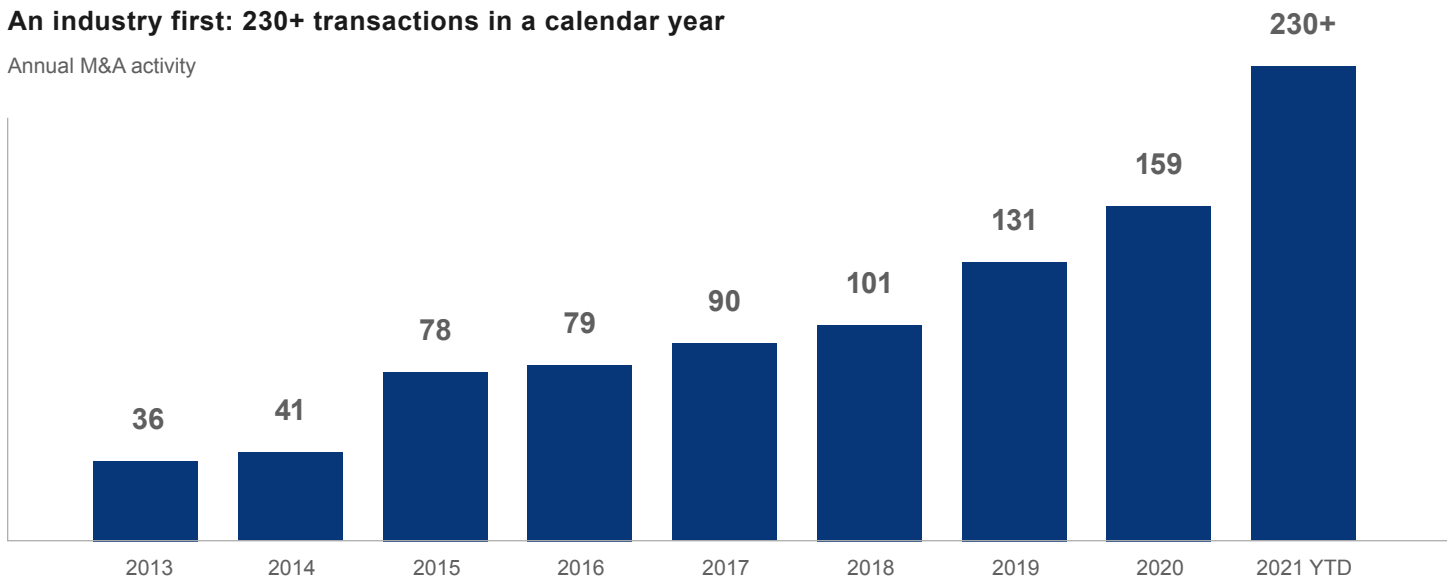
Eighth successive record year of RIA M&A

Alongside these findings is the RIA M&A landscape in 2021: The eighth successive record year of activity and where the industry exceeded more than 200 transactions¹ for the first time in history (and will end the year far above that). The all-time high activity is due in part to larger sellers accounting for a sizable share of the increased volume. Through Q3, nearly two-thirds (64%) of transactions were by sellers with Assets Under Management (AUM) of \$500MM or more. Sellers with \$1B or more in AUM represented 44% of the total – 10 percentage points higher than their historical share.

1. DeVoe & Company tracks RIA transactions with SEC registered wealth manager and investment manager sellers with more than \$100MM in assets under management.

An industry first: 230+ transactions in a calendar year

Annual M&A activity



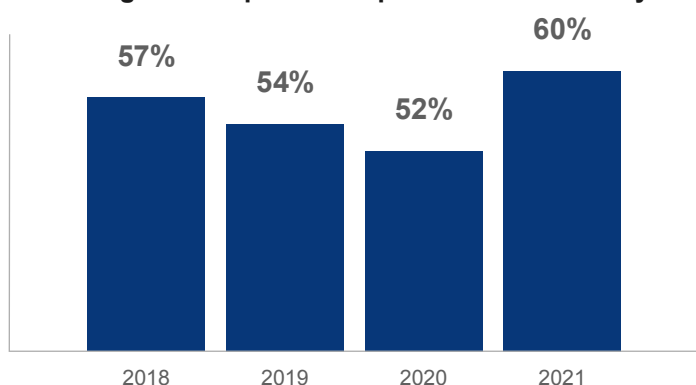
The list of serial acquirers has gone from a few to a dozen or more. These are firms that have become very efficient both in executing transactions and onboarding/integrating the acquired firms. This ability to rapidly complete transactions is evident as five buyers have completed 10 or more transactions this year. This volume was unheard of just a few years ago.

The Buyer's Perspective

Increase in firms seeking to acquire

RIAs see the success of the consolidators and are not shy to follow suit. A full 60% of advisors indicate that they plan to *grow through acquisition within two years*. Interestingly, this eight-percentage point spike over 2020 comes after a steady decline over the last several years.

Percentage that expect to acquire in the next two years



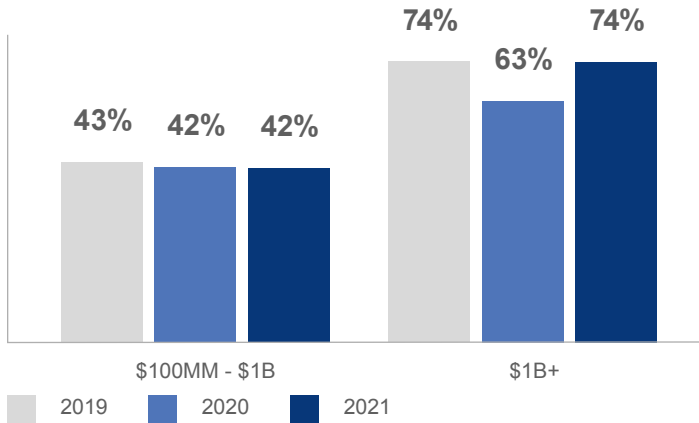
Size does matter.

The larger the firm, the greater the appetite to acquire another firm. A shockingly high 90% of all firms over \$3B signaled their plans to acquire during the next two years. Perhaps the strategy is 'if you don't want to join them, try to beat them' to flip the old adage. Many firms between \$3B and \$10B are feeling pressure to ramp up their businesses to better compete with META-RIAs.

DeVoe & Company coined the term META-RIA to categorize a group of ~25 mega-RIAs that are sharing the RIA space. These organizations, with sophisticated management teams and access to nearly unlimited capital, will ultimately grow faster, operate more efficiently, and provide a broader set of services than the other 10,000+ firms in the industry. So, perhaps, the larger RIAs are passionately seeking to gain scale to provide clients with the very best capabilities – and to compete more effectively with this new set of strong competitors.

At the other end of the continuum of these firms is the sub-\$500MM RIA. While only 38% of firms that manage less than \$500M AUM *expect to acquire* another RIA, this is nearly four times the number that said they *made an acquisition* in the prior two years. Smaller firms, witnessing the increased number of acquisitions, see M&A as a logical way to accelerate their growth and business goals.

Percentage that expect to acquire in the next two years (by segment size)



It's about the people

Talent is the top motivator for M&A. People are the lifeblood of RIAs, so it is no surprise that this is part of the rationale for acquisitions. Three-fourths (75%) of advisors chose *acquiring talent* as a primary driver, slightly ahead of *growing clients and assets* (74%).

Acquiring a firm to absorb their workforce can be a great strategy, however, it is important to note that firms must have a plan to integrate these people with the current staff, the culture, the reporting lines and harmonizing the compensation practices.

Attracting and retaining talent is an increasingly challenging task given today's broader labor market conditions. For finance and insurance employees, turnover is rising rapidly. The voluntary departure rate for these workers is at its

highest level in a decade. The 1.4% rate averaged through the first five months of 2021, compares to a 1.1% average over the previous ten years, according to Bureau of Labor Statistics.² Or another way to consider that statistic: the average firm has a 30% increased likelihood of losing a given employee next year than in previous years.

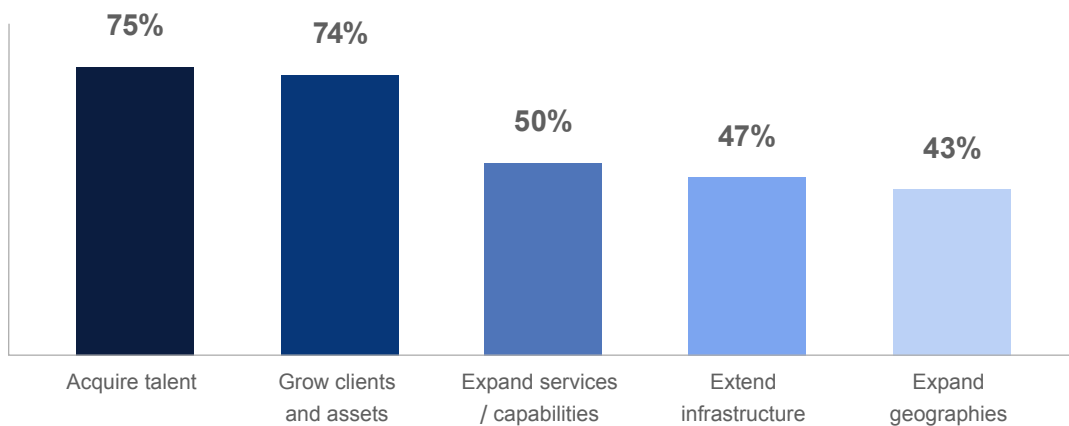
Given the importance of people, perhaps this is a good time to contemplate your overarching HR strategy and work environment (you can learn more in the **2021 DeVoe Talent Management Report**).

Other priorities for acquiring another firm include components that support building scale, such as expanding services / capabilities (50%) or *extending infrastructure* (47%). A fast follow is *expanding geographic footprint* (43%).

The good news is that RIAs are thinking strategically about M&A. It's not just simply to *grow for growth's sake*. Advisors are taking an increasingly sophisticated approach to M&A and using these complex transactions to accelerate the achievement of key business goals.

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Primary drivers for acquiring another firm



2. <https://www.bls.gov/news.release/jolts.htm>

Prospective buyer beware

Based on the datapoint above, there is a 60% chance that you, the reader, are planning to make an acquisition yourself. Most likely, the aspirational transaction would be your very first one. If that is the case, then prepare yourself. It won't be easy. And the odds of you elbowing your way to your first 'closing dinner' are becoming increasingly difficult.

85% of the transactions in 2021 were executed by a seasoned acquirer, which we define as a buyer that has acquired at least one RIA prior to the current deal. Just a few years ago, first-time-buyers represented 25% of transactions; this has steadily declined to just 15% today.

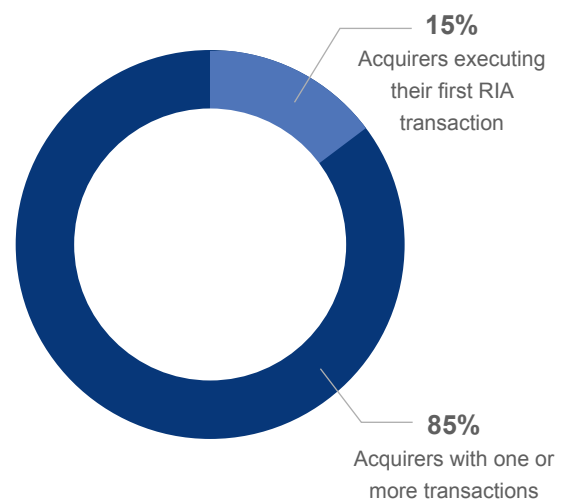
First time buyers should not be discouraged by these numbers, but rather ensure that they understand the potential challenges – and then prepare, prepare, prepare. Plan to lean in hard to overcome the potential obstacles.

Although few buyers perceive their lack of experience as a challenge (as you will see below), expertise is a critical characteristic that sellers seek. 80% of clients in DeVoe & Company's sell-side engagements require any potential buyer on their candidate list to have acquired at least one RIA. Many require a minimum of four previous acquisitions.

These sellers understand the vast complexities of negotiating, structuring and closing a transaction, and then the challenges associated with integrating companies, cultures and processes. Most don't want to be a guinea pig for this undertaking.

To ensure success, you will want to meticulously craft and communicate detailed plans around all aspects. This will provide sellers with greater comfort, as they contemplate this critical business – and life – decision.

Percentage of Acquisitions by Buyer Type (2021)



First-time buyer roadmap

To help first time buyers increase their attractiveness and the likelihood of a successful transaction, DeVoe & Company has mapped out a variety of elements to help you plan.

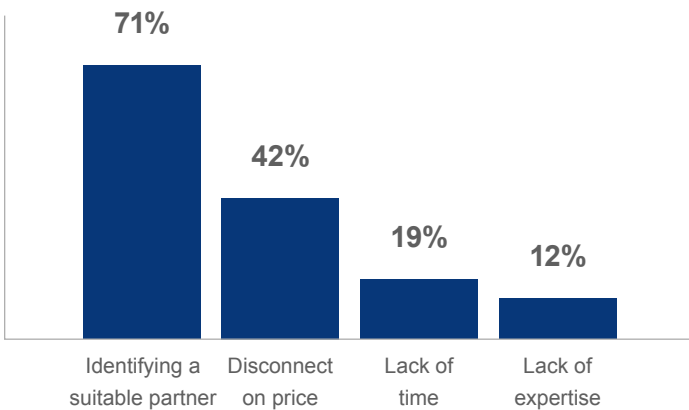
The first step is shifting from *aspirational buyer* (a firm that decides they want to buy) to *qualified buyer* (a firm that has done the work to be in a position to actually execute a transaction). Here are a few components of what it takes to become a *qualified buyer*.

- **The timeline.** Completing a process typically takes 12 to 18 months from end to end. This can be accelerated by working with an investment banker, cutting the time down to six months. (See Better Outcome with an Investment Banker). Unfortunately, even after months of hard work, you may not end up as the finalist.
- **Internal team.** DeVoe & Company has calculated that for every fully productive full-time employee you have stacked against the initiative, you will likely get one transaction closed per year. So, if you plan to spend half of your time on M&A, you will be lucky to get a deal done once every two years.

Buyer challenges

Once an aspirational *buyer* becomes a *qualified buyer*, finding an acquisition target is the first challenge. According to the survey results, the prospect of *identifying a suitable partner* rises to the top of the barriers list. Many advisors potentially feel overwhelmed by searching for a prospective target firm.

Primary barriers to making an acquisition



Defining the target and conducting the outreach is time consuming. More than 70% of respondents chose this as a primary barrier. The starting point to overcome this challenge is clear definition of your desired target.

The runner-up barrier is a *disconnect in price between buyer and seller*. The concept here is that sellers are learning about the current high valuation in the market and believe they should receive the same consideration. According to one respondent (a buyer), “there continues to be a fundamental divide between what small firms think their firms are worth and what we would be willing to pay.” The 42% of advisors that find this a barrier makes it an area for continued education in the industry.

Today’s seasoned buyers have created organizations that can expand the profitability and accelerate the growth of acquired firms. If you have a profit-increasing, growth-driving machine, then you can pay more for firms that will benefit from these capabilities.

Therefore, the price that a seasoned buyer can pay will be very different than the price if the buyer is first-time or just occasional buyer. Advisors also recognize that lack of time and lack of expertise (19% and 12%) are challenges to fulfilling their plan to make an acquisition.

- **External team.** Qualified buyers will have lined up expert resources, including legal counsel, CPA / tax professional, and potentially an investment banker / valuation firm / consultant.
- **Capital.** Assessing capital or lending options well ahead of time is critical. It will help ensure that you aren’t caught flat-footed (or without the required capital!) when a seller is interested. It will also help you craft the deal structure you will offer to sellers.
- **Value proposition.** Your story is paramount to your future success. It provides clarity and conviction regarding why someone should join your firm, and why you are better than anyone else for your design target.
- **Target seller.** Carefully evaluating and documenting the ideal fit for your organization will save you hours of wasted prospecting and discussions.
- **Deal structure.** Seek to understand typical deal structures, so that you can tailor-make your own optimal structure. One size does not fit all.
- **Operational infrastructure.** Readiness includes ensuring your operations, technology, and infrastructure can support an integration.
- **Integration plan:** A transaction doesn’t end when the contract is signed. It’s only getting started. Documenting an integration plan with roles and responsibilities, compensation, pricing, reporting, organizational structure, and more will support a smoother execution.

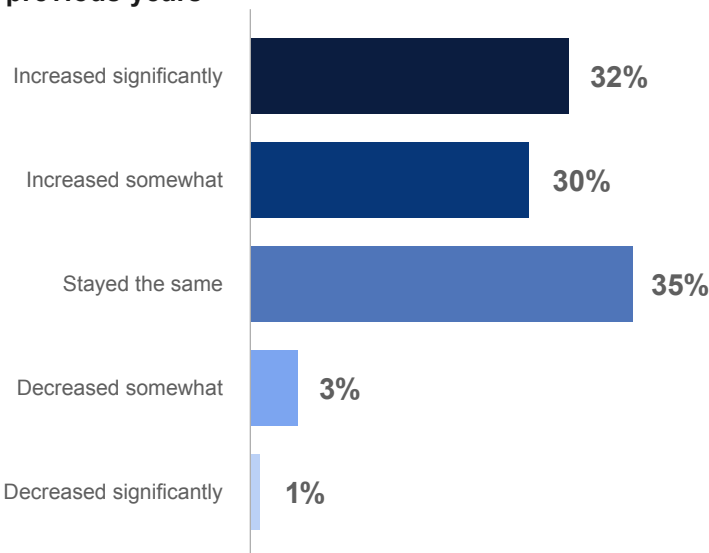
The Seller's Perspective

Buyers don't necessarily know which firms are open to a sale. The result is an increasingly active buyer outreach to potential sellers.

Potential sellers fielding more inquiries

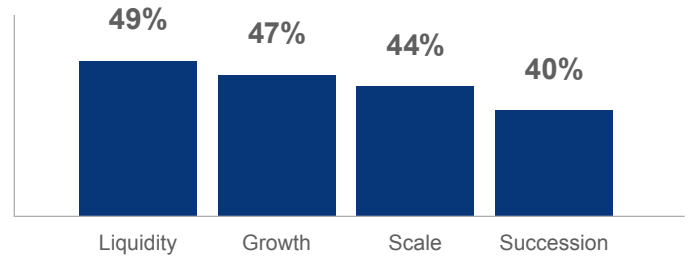
Prospective sellers have experienced a marked increase of in-bound solicitation during the last few years. Many RIA owners who may not even be considering an external sale are likely inundated and possibly fatigued by calls from suitors. Sixty-two percent of advisors indicated that the number of inquiries they receive related to selling or merging has *increased somewhat* (30%) or *significantly* (32%) compared to previous years. More than one-third of advisors are receiving 10 or more inquiries in a year. Their response to such a call may be motivated by the differing factors that drive the decision to explore a sale.

Number of inquiries about selling vs previous years



Seller motivations: not one size fits all

Main drivers for selling externally



Founders and leaders of firms have spent many years building their business into the enterprise it is today. It is perfectly normal to seek to monetize their efforts. Therefore, it is not surprising that among all survey respondents, nearly half (49%) chose *Liquidity* as a main driver of the desire to sell their firm externally. Selling all or part of their firm is prudent financial planning while it can give these leaders new energy to work to take the firm to another level knowing they have taken some chips of the table.

Growth of clients and assets at 47% was a close second. As the bull market has continued its march to higher highs, most firms have grown their assets under management, but not necessarily their number of new clients. Many firms struggle with organic growth. The average growth rate (ex-market) is around five percent. That's nothing to write home about. The result is that many firms make one or more acquisitions to grow.

Scale continues to be a sought-after requirement for sellers, with 44% of firms selecting it as a primary driver for selling externally. The increasing complexity of technology, compliance, and operations have made it more difficult for smaller firms to compete.

David Barton, Vice Chairman and M&A Leader at Mercer Advisors, focused on the role of scale as a main impetus in more sellers coming to the table. "The Covid shock drove firms to realize they needed scale and capacity. This year, the potential tax changes added fuel to seller motivations."

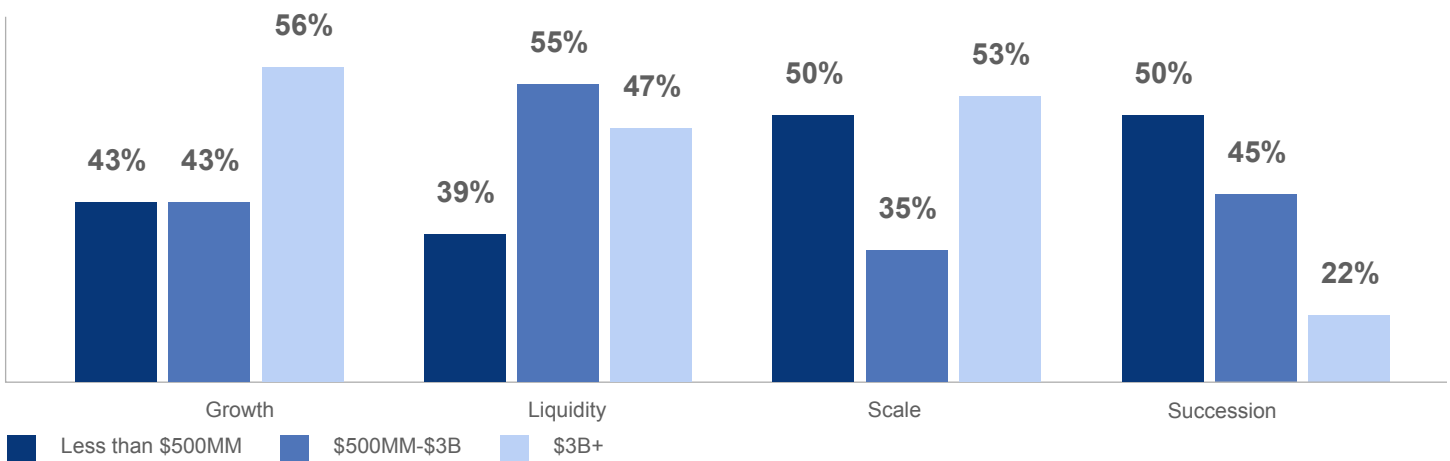
On the succession side, owners are aging out and many have not solved for succession. One respondent commented on the force of succession as the impetus for action. “The volume of deals will grow as many of us [sellers] do not have potential internal succession strategies.” We discuss more on the industry’s succession problem below. But it’s no surprise that 40% of respondents chose it as a driver. When a succession plan is not in place, an external sale becomes the only option.

The firm size, in terms of Assets Under Management, highlights differences in motivators. Respondent firms under \$500MM in AUM, indicated that the top two motivators to sell were *Scale* and *Succession*. While the firms that were in the middle category (\$500MM - \$3B AUM) were seeking *Liquidity* and *Succession* through a sale. It is the larger

firms, those over \$3B in AUM that seek a sale to continue to grow and secondarily to *scale up*.

Those firms under \$500MM in AUM have two competing priorities: allowing the younger generation employees share some of the management responsibilities and ownership rewards of the growing organization and secondly adding services or capacity to allow the firm to continue to grow. Those that have grown into the middle category again are looking to hand over some of the management responsibilities to the younger generation but also to monetize their asset. The firms above \$3B in AUM have indicated a strong desire to partner with some of the emerging META-RIAs in order to continue to grow while scaling their services and offerings for their clients.

Main drivers for selling externally

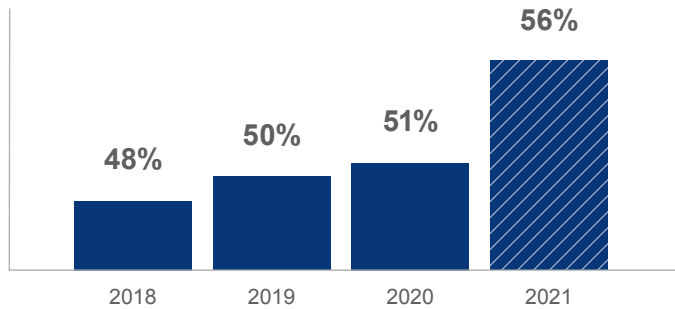


Internal succession: A near universal aspiration

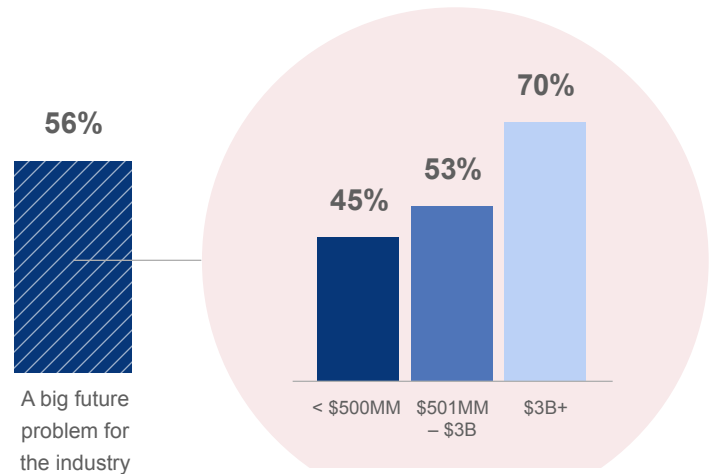
Most advisors have a natural bias to sell internally. They care deeply for their employees and appreciate their support in helping them develop. Unfortunately, the vast majority have not put the proper plans in place. This lack of succession planning is a yawning exposure point for the RIA industry. Advisors know it. And are getting more concerned about it.

Ninety percent of advisors believe that the lack of succession planning is a *future problem* for the industry. And those that perceive the problem as a *big problem*, has steadily increased each year we have done the survey.

Is the lack of succession planning a big future problem for the industry?



Is the lack of succession planning a big future problem? (By segment size)



Advisors from larger firms were more likely to indicate lack of succession planning is a *big future problem for the industry*. 70% of firms with \$3B or more in AUM chose that answer while 53% of firms \$500MM to \$3B, and only 45% of those with less than \$500MM believe it's a big problem.

The affordability and readiness gaps

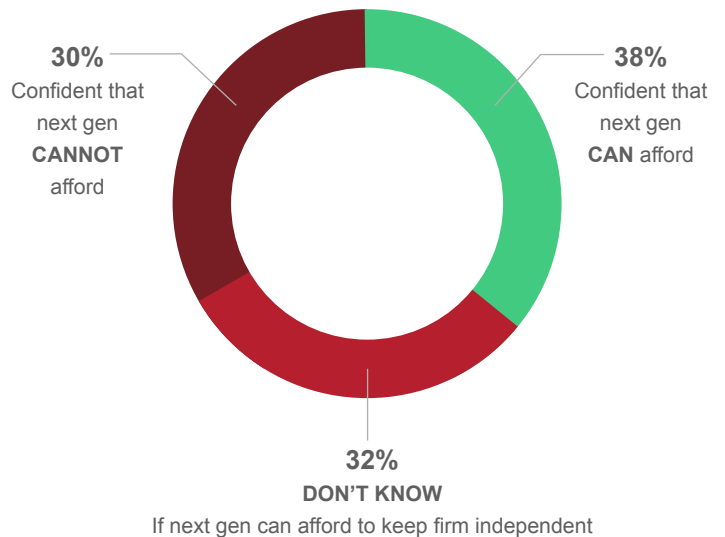
Our survey yields evidence that the lack of succession planning isn't simply a matter of procrastination or de-prioritization. It's an issue of affordability. 30% of surveyed advisors state that G2 *CANNOT afford their firm*. These firms have grown to a size that their valuation is beyond the grasp of the second generation to purchase. As retiring owners reduce their stake, they will most likely need to look for an external purchaser. In some cases, a partial sale will work. In others, it may be a full sale of the business.

Another 32% of advisors simply *don't know*. These advisors have not thought through the math and the implications to an internal buyer. While valuations continue their ascent, firms looking for internal succession will need to begin selling equity to the second generation early and often to ensure their vision of remaining independent can come to fruition.

The remaining 38% of survey respondents are confident that the next gen can afford to buy the founders out. Hopefully, we see this number increase steeply over the next several years.

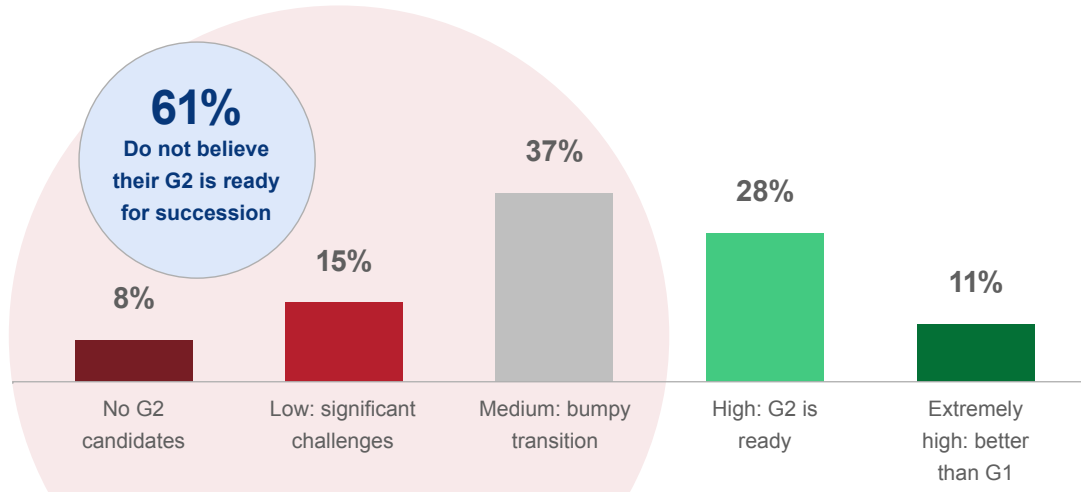
Reality Check: Red flags on G2 buying power

Is the next gen of your RIA able to buy-out the founders?



Advisors also understand an internal transition takes more than a G2 who can afford the firm. Readiness is even more important. Our research has indicated that 61% of advisors believe their G2 is *not ready for a transition*.

If the company transitioned leadership / management to G2 today, how would you rate G2's readiness?



To prepare their future leaders to take the reins with confidence, today's leaders need to put in the time on training, coaching, and mentoring. For example, a future leader may be excelling at the investment process and client relationship management, but they may need a lot more guidance when it comes to operational and compliance procedures.

Firms of all sizes face succession issues. The specifics of the challenge vary by size and other characteristics, but no advisor segments have universally cracked the code. Without a substantial increase in transition planning on an accelerated timeline, the industry may soon face a succession crisis.

Better Outcome with an Investment Banker

Buying, selling or merging your business is one of the most important decisions of your career. Given the magnitude of what is at stake, it is often one of your most important *personal* decisions, too.

To be successful in such a critical transaction, you need an experienced partner who can deliver strategic thinking and technical knowledge. Just as importantly, that partner needs to understand the cultural and emotional aspects of an M&A transaction.

When you work with an investment banker, such as DeVoe & Company, you'll save time—about six months on average—and emerge with a better outcome from your deal structure. With each transaction that it supports, your investment banker builds invaluable experience and insight that benefit your firm. First-time acquirers, in particular, can rely on a knowledgeable investment banking partner to in a variety of areas, including understanding valuation, determining the economic deal structure, assessing 'real growth', evaluating their client base, navigating the complex legal documents, and ensuring a smooth timeline.

Conclusion

The old adage *another day, another dollar* can literally be translated to *another day, another deal* based on 2021 RIA activity. M&A is a hot topic in the industry and on the minds of RIA leaders.

The advisor viewpoints captured in our annual survey provide a unique collective perspective on these strategic decisions. The majority of their survey answers point toward the power of planning.

Regardless of whether you intend to buy, sell or merge, the future success of the endeavor will be rooted in methodical planning. Developing an understanding of the elements of a successful transaction – ranging from target profile to valuation to integration plans – is paramount to a successful outcome. Not only will this give you a game plan and a north star to follow, it will also keep you from wasting time or – much worse – executing transactions that are unhealthy.

Think strategically. Plan methodically. Execute with intensity. A simple recipe for achieving a complex initiative.

Methodology

The DeVoe M&A Outlook Survey is designed to collect advisors' perspectives about a wide variety of merger, acquisition, sale and succession topics. DeVoe & Company surveyed 131 individuals between September 2, and October 28, 2021. Respondents were senior executives, principals, or owners of RIAs ranging in size from \$100 million to over \$5 billion in assets under management.

To further support and expand upon these findings, DeVoe and Company utilizes its proprietary research as well as expert commentary.

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 broad categories:

BUSINESS CONSULTING

INVESTMENT BANKING

VALUATIONS

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Committed to creating
transformational change
for wealth management
and investment management
organizations.