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CAPITAL STRATEGIES

Inside the Deal M&A Newsletter

Q3 2021

A Brief Note from the Team

Dynasty Financial Partners is pleased to share with you the third edition of our new quarterly newsletter, *Inside the Deal*, a proprietary publication which is aimed at educating our clients on trends in Wealth Management M&A. We hope to provide you with insights into specific deals and deal structures, answer important questions raised from our readers, and most importantly, empower our network to have the confidence to be successful in their M&A strategy. For our third issue, we reflect on the robust year thus far of deal making in 2021 (as we continue the post-pandemic new normal). Early indications suggest that the robust M&A market is not going away anytime soon, as strong valuations combined with a strong buyer sentiment (many of whom have access to a significant amount of capital) will continue to create attractive opportunities on both the buy-side and sell-side alike.

We would like to hear from you! Please email us at dcs@dynastyfp.com. Let us know what you would like us to explore in upcoming issues and how we can better serve our network so you can pursue and close more M&A deals with confidence!

As always, everything you share with us will be held in the highest degree of confidentiality and discretion.

Kind regards,

Harris Baltch
Head of M&A and Capital Strategies

About the Author

Harris Baltch

Dynasty Financial Partners
Head of M&A and Capital Strategies

Harris Baltch is responsible for leading Dynasty's M&A and Capital Strategies division. In his role, he works to expand, scale, and grow the Dynasty Network through flexible capital solutions and creative M&A deal structures that build long-term enterprise value. By empowering our Network to have the confidence to be successful in their M&A strategy, our team powers the Network to grow assets faster, drive and diversify revenue, create scale, expand margins, and add talent.

Prior to joining Dynasty, Harris spent nearly a decade at UBS Investment Bank where he was an Executive Director in the firm's Financial Institutions Group. While at UBS, Harris originated, led, and executed over $10 billion of strategic M&A and capital market transactions for companies in the asset and wealth management industry. Earlier in his career, Mr. Baltch worked at PricewaterhouseCoopers LLP in the Banking and Capital Markets Group. He has over 15 years of financial services experience and earned his M.B.A. from the Johnson Graduate School of Management at Cornell University. He also received a B.S. in Accounting at Binghamton University and is a certified public accountant, registered in the State of New York.

2021 M&A Market: Executive Summary

When taking stock of the M&A market at the end of Q3 2021 there is only one takeaway possible: will this 'all-time' high endure or are there still further unexplored heights yet to be seen? After the prior high of Q1 2021 only held for two quarters (after itself breaking the previous high of Q4 2020), and the overall record-breaking total deal volume of 2020, it is beginning to feel like the RIA M&A equivalent of the McGuire/Sosa/Bonds homerun record chases. Despite one or two 'quiet' months which created what we now see to be a head fake toward more 'normal' deal numbers in Q2, the M&A deal announcements have continued at a torrid pace in Q3 hitting 78 total deals (+42% over 3Q 2020) and 208 YTD (+53% over first three quarters of 2020). Whereas baseball's homerun numbers proved to be temporary, the RIA M&A craze appears to be much more sustainable!

We see the main long-term drivers of this outsized RIA deal volume continuing unabated: long-term advisor succession needs, the increasing RIA scale and scope needed to compete, and new private equity backed buyers entering the market. These, on top of the new drivers (discussed last quarter) emerging in 2021, the possible long-term capital gains tax increases and the recapitalization of multiple major consolidators and aggregators, should provide long lasting 'juice' to this M&A market.

We see no signs of the deal volume decreasing in the 4th quarter and fully expect another attempt at an all-time record worthy year. A 9th year straight of record-breaking M&A activity is all but assured.

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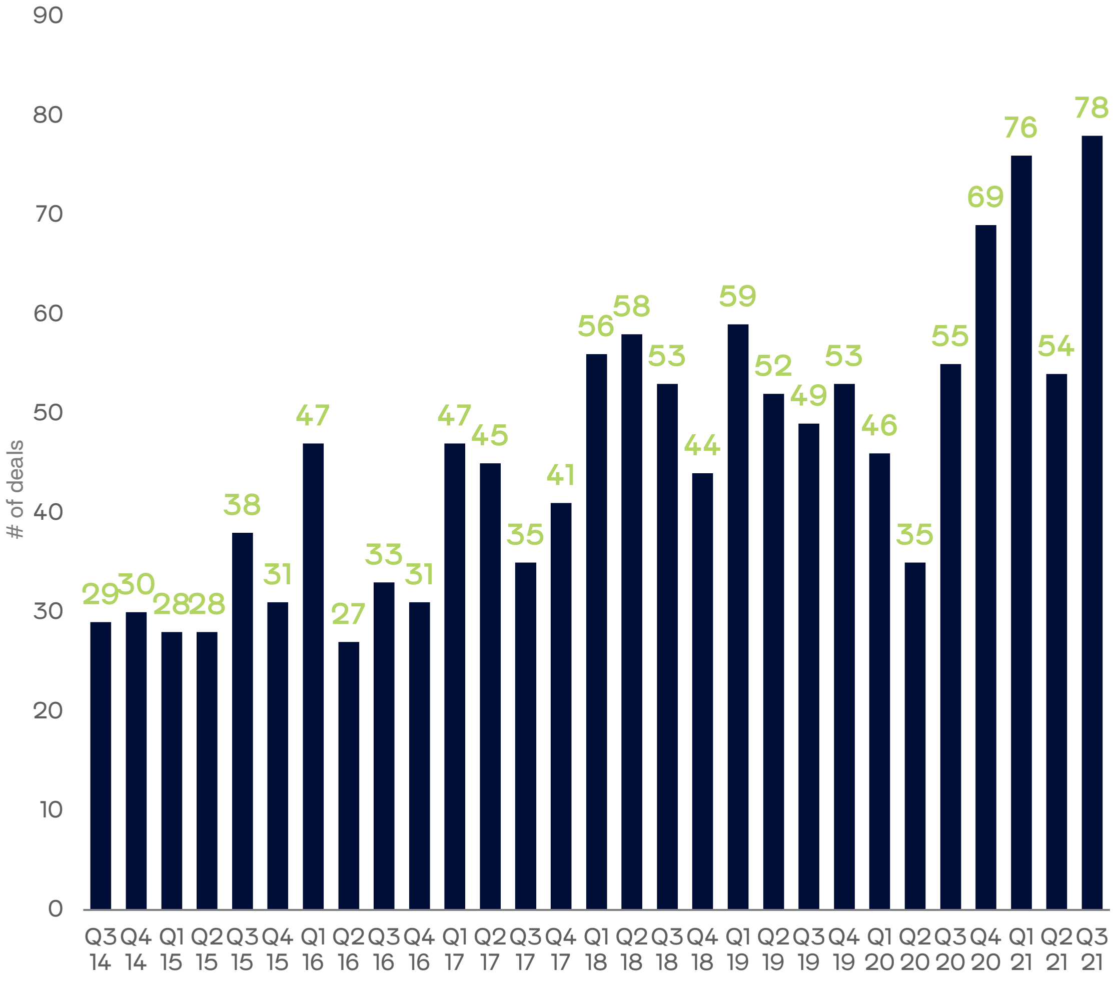
RIA M&A Deal Volume Reaches Another New High in Q3



Source: Echelon – 'Q3 2021 Echelon RIA M&A Deal Report' (2021)

Q3 2021 M&A Market Themes to Watch

As we enter the closing stretch of 2021, we see six new themes emerge:

1. Asset Managers and Banks Find New 'Must Have': Index Investing
2. Manifest Destiny Meets The M&A Universe
3. RIAs Go International
4. U.S. Firms Try New Entrance Into The U.K.
5. How Much Is an RIA Deal Actually Worth?
6. Client Retention Driving M&A Success

Theme 1

Asset Managers and Banks Find New 'Must Have': Index Investing

As more and more retail and high net worth investors develop an affinity for portfolio customization, index investing has not gone unnoticed by asset managers and financial firms, as evidenced by the frenzy of M&A activity in the space.

So where and how have we seen deals get done?

In Q1 2021, BlackRock completed the acquisition of customized index shop Aperio for $1.05 billion. Aperio not only brought to BlackRock over $190 billion in SMA assets, but also customized index strategies and tax harvesting expertise, which includes $45 billion in tax-optimized separately managed accounts. Interestingly, this was a quick turnaround for Aperio following Golden Gate Capital's acquisition of an 85% stake in what was then a $27 billion AUA firm in Q3 2018.[1]

BlackRock's acquisition of Aperio further demonstrated the long-term importance of this space to incumbents, if only for the premium required to consummate the deals. This acquisition reportedly valued the direct indexer at 50x underlying earnings.[2] "The wealth manager's portfolio of the future will be powered by the twin engines of better after-tax performance and hyper-personalization," said Martin Small, head of BlackRock's US wealth advisory business.[3] This long-term ability to customize existing indices to create bespoke portfolios and its long-term importance were further echoed by both the CIO of ETF trends and the CEO of Vanguard following their own deal.

"Software developments mean that it is now trivial to maintain thousands of stock portfolios and rebalance them or put whatever spins you want on them" said Dave Nadig, CIO of ETF Trends (an investment website).[4]

[1] RSM – 'Aperio equity sale: What does it mean?' (2018)

[2] Financial Times – 'Vanguard makes first acquisition with Just Invest deal' (2021)

(3) *Financial Times – 'BlackRock aims for wealthy business with $1.05bn Aperio deal' (2020)*

[4] Financial Times – 'Vanguard makes first acquisition with Just Invest deal' (2021)

Theme 1

Asset Managers and Banks Find New 'Must Have': Index Investing

Notably, Vanguard's announced acquisition of Just Invest in Q3 2021 was also its first M&A deal ever in its 46 year history! The acquisition price was not disclosed, but the California-based RIA (founded in 2016) managed $1 billion in AUM when the transaction was announced and creates customizable direct index offerings. "Technology-driven solutions such as direct indexing continue to reshape our industry, driving better investment outcomes and lowering costs for clients," said Tim Buckley, Vanguard CEO.[5] Vanguard plans to use the capabilities acquired from Just Invest in a broader rollout to its clients.

Furthering this theme is Morgan Stanley's Q4 2020 acquisition of Eaton Vance for cash and stock (roughly a $7 billion valuation of the $1.22 trillion manager). One of the primary motivations for the deal was to acquire Eaton Vance's subsidiary Parametric, which specializes in personalized index strategies, and Calvert which specialized in ESG. Morgan Stanley's head of investment management Dan Simkowitz stated "this is core to our secular view of the asset and wealth management market over the next 10 or 15 years: customization is going to be a pillar of growth and a pillar of value to clients."[6]

The Eaton Vance merger was especially interesting as the market seemingly overwhelmingly agreed with the rationale, as in the three months after the announcement both Eaton Vance and Morgan Stanley stocks substantially outperformed the market (up 80% and 50% respectively).[7]

[4] Financial Times – 'Vanguard makes first acquisition with Just Invest deal' (2021)

[5] IBID

(6) CityWire – 'BlackRock takes stake in $2.5bn boutique, boosts SMA firepower' (2021)

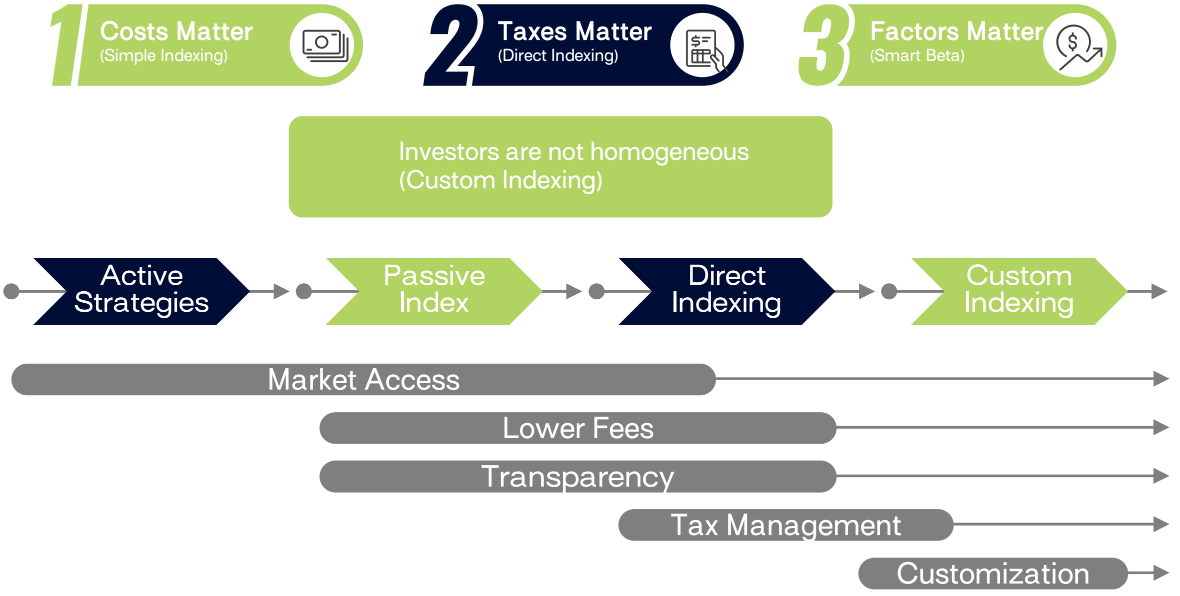
[7] Seeking Alpha – 'Eaton Vance And Morgan Stanley Will Dominate Asset Management Post Merger' (2021)

Theme 1

Asset Managers and Banks Find New 'Must Have': Index Investing

In June 2021, J.P. Morgan announced that it was acquiring OpenInvest with the goal to help its financial advisors actively manage indexes.

Indexing oversimplification:[9]



When taken together, large financial institutions see both a long-term opportunity and possible threat of personalized index investing. Given that analysts predict, as soon as 2025, most financial advisors will offer custom indexes, we expect to see further deals of this nature as larger financial players seek to gain a foothold in the space to not only allow themselves to compete against each other but against the smaller RIA universe who will be soon to follow and adopt.[8, 9]

[8] Seeking Alpha – 'Eaton Vance And Morgan Stanley Will Dominate Asset Management Post Merger' (2021)

[9] **OSAM – Custom Indexing: The Next** Evolution **of Index Investing (2020)**

Theme 2

Manifest Destiny Meets The M&A Universe

At Dynasty Financial Partners, we track and categorize every announced deal in the wealth management universe, which in turn helps reveal a variety of trends, ranging from geographic hot spots to underlying strategic rationale. One of the key themes at the forefront in Q3 2021 was 'expansion'. Whether it was an RIA executing a proximate M&A strategy or aggregators moving into a new geography, expansion was clearly on the minds of many firms in Q3 2021 and was a key motivator in over 15 deals. Below are just a few of the deals announced during the quarter:

Date 7/29/2021

Acquirer Raymond James

Acquiree Charles Stanley (UK)

"This acquisition announced follows a series of office openings by Raymond James across the country. Earlier this month, it opened a branch in the heart of Cheshire and one in Cheltenham."[10]

Date 7/15/2021

Acquirer Wealth Enhancement Group

Acquiree Fitzgerald Wealth Management (Houston, TX)

"This [is] our second transaction in the Houston area,' Dekko said. 'We have lots more to go."[11]

Date 8/12/2021

Acquirer Wealth Enhancement Group

Acquiree Investor Solutions (Miami, FL)

"Dekko said in a statement South Florida is a crucial market in WEG's expansion goals into key regions throughout the country."[12]

Date 8/11/2021

Acquirer Savant Wealth Management

Acquiree Treybourne Wealth Planners (Greenwood, IN)

"Chief Executive Brent Brodeski told Citywire he would like to amass roughly $1 billion in client assets in Indiana in the next five years."[13]

[10] FT Adviser – 'Raymond James to acquire Charles Stanley' (2021)

[11] CityWire – Wealth Enhancement Group buys $513m Houston shop' (2021)

[12] WealthManagement.com – 'WEG to Acquire $1.1B Investor Solutions' (2021)

[13] CityWire – 'Savant 'plants a flag' with purchase of $321m Indiana RIA' (2021)

Theme 2

Manifest Destiny Meets The M&A Universe

Date
8/17/2021

Acquirer
Beacon Pointe Advisors

Acquiree
Northstar Investment Advisor (Denver, CO)

"We have spoken to many firms in Denver, and we are thrilled to have found our partners with Northstar. They are a mile high now, but the sky is the limit with this incredible group' shares Matt Cooper, President."[14]

Date
8/23/2021

Acquirer
Hightower

Acquiree
Investment Security Group (Denver, CO)

"Hightower Chairman and CEO Bob Oros said the firm was "poised for expansion in a highly coveted geography."[15]

The above M&A deals illustrate the variety and dichotomy behind even a unifying category of 'expansion'.

The overarching takeaway, however, was that aggregators and private equity buyers of all kinds were more vocal about both their desire to expand and future plans to deepen their current penetration into new regions, a noted uptick from prior quarters.

[14] PR Newswire – 'Beacon Pointe Soaks in the Rocky Mountain View in Denver, CO' (2021)

[15] WealthManagement.com – Hightower Makes Investment in Denver Firm With $800 Million AUM' (2021)

Theme 3

RIAs Go International

Readers of our Newsletter may recall the bonus theme from our first edition, in which we explored a number of the recent deals which involved U.S. based RIAs and financial players as they merged, acquired, and invested globally.

There are many long-term trends playing out between major wirehouse firms and the independent universe, but one of the more dramatic knock-on effects of recent years has been the international pull-back of certain major large banks.

In January 2021, Wells Fargo announced that it would cease to open new international brokerage accounts and it aimed to close or exit all accounts by the end of September 2021. Wells Fargo's international wealth management business at the time of the announcement totaled over $40 billion, with over 80% coming from Latin America.[16] Although the reasoning was partially a knock-on effect from the fake accounts scandal (the settlement from opening unauthorized saving and checking accounts for their customers included billions in fines and a cap on assets of $1.93 trillion), the primary culprit was compliance and legal related.[17]

Wells Fargo's plan to "simplify the business" through a "methodical" 9-month exit process, as Jim Hays the head of Wells Fargo Advisors explained in a memo, is not a first for a major bank. In 2014 RBC conducted a similar exit as it closed its Caribbean and other North American banking groups. A few years later Merrill Lynch placed hard limits on permissible international countries and boosted account minimums in those not banned (resulting in a lawsuit by several advisors). The reasoning for both Merrill and RBC's decisions aligns with the stated reasoning for the Wells Fargo exit, new heightened legal and compliance hurdles.[18]

[16] CityWire – 'Wells Fargo to close international wealth management business' (2021)

[17] S&P Global – 'Wells Fargo to exit international wealth management business – AdvisorHub' (2021)

[18] WealthManagement.com – 'Wells Fargo Advisors to Exit All International Business' (2021)

Theme 3

RIAs Go International

But so the saying goes “one man’s trash is another man’s fortune…” and many firms look to take advantage of Wells Fargo’s decision, including other wirehouses such as UBS and Morgan Stanley and RIAs like Insigneo, Snowden Lane Partners, and Sanctuary.

In particular, RIAs see several avenues where they can add value to advisors that have traditionally been challenging at wirehouses, namely the ability to offer multi-custodial relationships and compliance adaptability.

As of the end of July 2021, 76% of the over 200 brokers in the international business have exited Wells Fargo.[19] Of these, Snowden Lane hired at least a dozen advisors and Insigneo picked up nearly two dozen.[20] According to Jim Dickson, CEO of Sanctuary, “If you look at the international business, it reminds me of what the United States business was 10 or 15 years ago…”[21]

The aforementioned three are just a few of the RIAs taking advantage of major wirehouses pulling back due to the regulatory, compliance and legal oversight requirements. An RIA’s willingness to go the extra mile and be more flexible will continue to serve them not only in international expansion, but also in future, yet to be seen, opportunities to attract advisors from wirehouses.

[19] Financial Advisor IQ – ‘RIA Firms Spell Out How They’ll Succeed Where Wells Fargo Failed’ (2021)

[20] IBID

[21] WealthManagement.com – ‘Q&A With Sanctuary Wealth’s Jim Dickson’ (2021)

Theme 4

U.S. Firms Try New Entrance Into The U.K.

A consistent theme and long-term reality in the wealth management industry is would-be clients adoption of robo-advice. This is important to keep in mind when considering the various channels Raymond James, Goldman Sachs, and J.P. Morgan have utilized to expand their presence into the UK.

The attractiveness of the UK's wealth management market (particularly for U.S. banks) is based on the highly fragmented and low scale nature of the current competitive landscape. With the UK's wealth market boasting roughly £1.7 trillion in current savings as well as ~5,400 advisory firms (90% of which have five advisers or fewer), it is a highly attractive market for outside entrants, particularly banks rich in capital looking for new investment opportunities.[22] This is especially important when taken in conjunction with one of the largest fintech markets in the world -- the U.K. attracted $4.1 billion in venture capital funding directed towards its Fintech industry alone last year.[23]

Raymond James has taken a standard M&A approach to its UK expansion with the acquisition of Charles Stanley, a 299 year old UK wealth manager, for £278 million and increases Raymond James's UK total AUM to over £40 billion pounds. Charles Stanley bowed to the benefits of scale, as it needed Raymond James's help in combatting rising compliance and technology costs, a story seen in many U.S. RIA M&A deals.

In contrast, the other M&A stories were less traditional: J.P. Morgan's acquisition of Nutmeg, Lloyds's acquisition of Embark, and Goldman Sachs's impending entrance into the UK market using Marcus.[24]

[22] S&P Global – 'JPMorgan, Lloyds moves may spur more wealth management fintech deals at UK banks' (2021)

[23] CNBC – 'JPMorgan is buying UK robo-advisor Nutmeg to boost overseas retail banking expansion' (2021)

[24] Financial Times – 'Raymond James strikes deal to acquire Charles Stanley for £279m' (2021)

Theme 4

U.S. Firms Try New Entrance Into The U.K.

J.P. Morgan's acquisition of UK robo-advisor Nutmeg in June 2021 was an ambitious re-entry into the UK for the US banking giant. Its original attempt following its acquisition of 'Save & Prosper' in 2008 was shuttered in 2014. This failure was largely due to higher than expected cost and average client age well above what would be desired. J.P. Morgan announced earlier in the year its intentions to have a standalone digital offering by the end of 2021, and by acquiring Nutmeg, one of the largest robo-advisors in the U.K. (£3.5 billion AUM, £23,000k average account size, and over 140,000 customers), it will advance this goal. [25]

Goldman announced in May 2021 its plans to launch Marcus's robo-advice service in the UK in early 2022 (after launching the savings version in 2016), though with a pivot to "more [of an] investment and wealth provider rather than a full-service digital bank" (Des McDaid, head of Marcus UK).[26] This is partially for regulatory reasons as it is nearing the £25 billion mark which triggers required ringfencing, as well as a result of the scrapping of an announced joint venture with Nutmeg.[27]

There are other motivating factors however, even beyond growing for the sake of expansion. J.P. Morgan is keenly aware of its rival Morgan Stanley's recent acquisitions of E*Trade and Eaton Vance, something which might have been on CEO Jamie Dimon's mind when he stated that they would be "much more aggressive" in searching for additional capability acquisitions.[28]

[25] CityWire – 'The spice is right: Why JP Morgan bought Nutmeg' (2021)

[26] CityWire Funds Insider – 'Goldman's Marcus to launch robo advice service in UK wealth push' (2021)

[27] IBID

[28] CNBC – 'JPMorgan is buying UK robo-advisor Nutmeg to boost overseas retail banking expansion' (2021)

Theme 4

U.S. Firms Try New Entrance Into The U.K.

Another motivator is fear of non-traditional entrants like Google and Paypal- who have been for years rumored to make a heavy push into banking.[29] Also factoring in is regulation (both actual compliance adherence and existing regulatory relationships) which made it difficult to simply port over U.S. developed technology-even when J.P. Morgan's 'You Invest' boasts $50 billion in assets.[30] The overarching strategy of these moves however is simple: many digital-only challengers to the U.K.'s 'big four' (NatWest Group, Lloyds, Barclays, and HSBC) have been steadily gaining market share. These competitors, like Monzo, Revolut, and Starling, have had success with much less institutional heft than Raymond James, Goldman or J.P. Morgan.[31]

These three moves, two of which involved foreign entrants through the robo-advice space, will be interesting to monitor. Recent forays (including J.P. Morgan's first attempt in 2008 and ending in 2014) have not been marked by success, including Investec and UBS's failed attempts. Both pulled their offering in the last few years after only a short time, though J.P. Morgan and Goldman will both seek to buck this trend. Their attempts in this space will be very interesting to monitor, especially with the longer-term implications for robo-advice in the U.S., particularly by foreign entrants.[32]

[29] CNBC – 'JPMorgan is buying UK robo-advisor Nutmeg to boost overseas retail banking expansion' (2021)

[30] IBID

[31] IBID

[32] CityWire – 'The spice is right: Why JP Morgan bought Nutmeg' (2021)

Theme 5

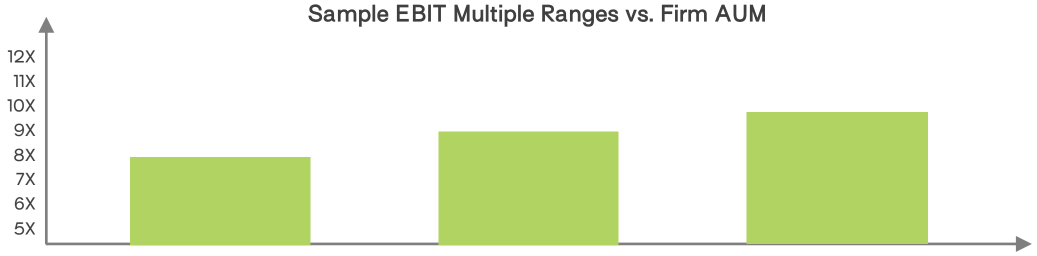
How Much Is an RIA Deal Actually Worth?

Many RIA transactions are structured with a consideration mix of cash and equity but what does that really mean?

With the increasing number of private equity and other sophisticated entrants in the wealth management space, and constant news of strong multiples being paid for RIAs, lost in the details is the lack of real public data that demystifies the true value of these deals.

RIAs are attractive to top advisors, who can monetize their books at two to three times the value in other channels.

Sample EBIT Multiple Ranges vs. Firm AUM



Firm AUM	<$500 million	$500 million–1 billion	≥$1 billion
EBIT multiple range	7–9x	8–11x	9–11x

Source: Dynasty Financial Partners

That said, smaller deals, which are vastly more relevant to those in the RIA space, hardly (if ever) get fully announced. It was for this reason on August 17th that it was almost shocking to see the following announcement:
"Dover, N.H.-based First Seacoast Bank entered into a definitive agreement with an investment advisory and wealth management firm to purchase certain client accounts and client relationships for $344,475. Of the purchase price, $172,237 will be paid at closing, and the remainder will be paid upon the successful transition of the client accounts to the bank. The client accounts to be purchased contain assets under management valued at approximately $26.3 million as of June 1."[33]

This rare piece of public information gives valuable information: total dollar amount, that it is contingent, and how much of the value is contingent. What it does not give, however, is the structure of the retention contingency or timing. Is it 100% or nothing? Is it in levels (100%, 90%, 70%...) which affects the final contingent fee? How quickly will this additional 50% be paid out to the seller?

[33] SEC.gov – 'First Seacoast Bank 8-k 8/17/21' (2021)

Theme 5

How Much Is an RIA Deal Actually Worth?

This is a simple deal and there are still so many outstanding questions needed to see the actual value of the hypothetical multiple the seller was paid by First Seacoast Bank.

How a deal is structured is vastly more important than the headline dollar amount when assessing a deal's true value:

01

Feasibility and timing of contingent payments

02

With a stock swap, what is its true value (to both the seller and acquirer)?

03

When might it be able to be realized?

These are all important questions to keep in mind when assessing transaction statistics. Here is a small sample of deals which were just announced this quarter (and a question outstanding):

Date 7/14/2021 | **Acquirer** Bain Capital | **Acquiree** Carson Group

"Bain Capital's buyout of Carson Group's minority private equity backer Long Ridge Equity Partners for a $1 billion valuation."[34]

? What is the percentage owned? Have any covenants or credit lines changed?

Date 7/28/2021 | **Acquirer** Cresset Asset Management | **Acquiree** Asset Management Advisors

"I opted for as much equity as [Cresset] would allow me to have: said AMA president Lynn Mathre, who did not comment further on deal terms."[35]

? What was the consideration mix? How much is the equity projected to be worth by Cresset or AMA?

[34] Barron's – 'Bain Capital Buys Stake in Carson Group, Values Firm Over $1 Billion' (2021)

[35] CityWire – 'Cresset acquires $500m Houston RIA' (2021)

Theme 5

How Much Is an RIA Deal Actually Worth?

Date
7/20/2021

Acquirer
Mariner Wealth

Acquiree
AdvicePeriod

Structured as a near-100% equity transaction with Lockshin and his partners rolling their AdvicePeriod equity into Mariner."[36]

How much was AdvicePeriod's equity valued at compared to Mariner's?

Date
7/1/2021

Acquirer
Dakota Wealth Management

Acquiree
Persimmon Capital Management

70% equity, 30% cash"[37]

With this being the CEO of Dakota's third venture (Raimondi founded Colony Group and Banyan Partners), is there an eventual exit plan in mind?

Those few questions listed above just serve to underline the importance and need for a rational and nuanced evaluation of even the small amount of RIA deal data released, as 20% of consideration in one consolidator's stock is not equal to that of another, or even a fellow RIA who is not planning on doing another deal for years.

[36] CityWire – 'Mariner to buy Lockshin-founded $5.1bn RIA AdvicePeriod' (2021)

[37] CityWire – 'Peter Raimondi's Dakota Wealth buys $260m RIA' (2021)

Theme 6

Client Retention Driving M&A Success

One of the primary results that makes an RIA deal successful is client retention.

In a 2020 Fidelity survey, the average advisor expected 82% of clients to transition with them to a new firm, with an average of 78% actually making the jump. 83% of advisors saw an increase in AUM following a switch, with the median increase being 30%.[38] In contrast, 'The 2016 FA Insight Study of Advisory Firms: Growth by Design TD' survey illustrated acquirers noticeably missed on their expectations of acquisition leading to better economies of scale and revenue growth.[39]

The primary cause of these deal letdowns was inadequate client retention, both in the immediate and longer term. In another survey of RIA acquirers, "only about 25% of advisers were 'very satisfied' with buying another adviser's book of business" and "even in the most successful acquisitions, the average retention rate was 76% of clients. A 64% retention rate applied to another group of about 45% of the acquirers who reported being just satisfied with their purchase. Around a third of respondents said they kept only 44% of the clients from the acquired practice."[40]

[38] Fidelity Institutional Insights – 'The Five Stages of the Advisor Movement Journey' (2020)

[39] FA Insight (TD Ameritrade Institutional) – 'Mergers & Acquisitions in the RIA Industry: Overcoming the Big Disconnect'' (2017)

[40] Investment News – 'Advisers struggle to make acquisitions work' (2014)

Theme 6

Client Retention Driving M&A Success

This is especially important as historically 33% of acquisitions are not large billion-dollar RIA acquisitions, and include solo advisor/practitioners.[41]

An element of these opposing statistics is the different types of acquisitions involved

01 Solo advisor vs. established RIA

02 Asset purchase vs. equity purchase

03 Bank acquisition vs RIA

Important to consider when succession is a component in an acquisition:

How quickly will the transition occur? What type of plan is in place? How effectively adhered to is the succession plan within the new firm? How many advisors are taking over the book?

The fundamental dynamic at play within a wealth management firm is the close personal relationship between an advisor and his/her client. The same goodwill and 'stickiness' which makes it possible for an advisor to leave a wirehouse firm with such high client retention can make any merger in which an advisor transitions out with the potential risk for higher client attrition even in an industry where client retention is routinely in excess of 90%.[42]

[41] FA Insight (TD Ameritrade Institutional) – ' Mergers & Acquisitions in the RIA Industry: Overcoming the Big Disconnect'' (2017)

[42] Piper Sandler – 'Wealth Management: The Deal Magnet, A Discussion of The Wealth Management Industry and Why the Attraction Is Only Getting Stronger (2020)

Q3 M&A Market Color

Q3 2021 M&A Activity: An Early Read

After a record year in terms of total M&A deals in 2020, 2021 continues breaking records. Year-to-date, as of 9/30, there have been 189 announced pure RIA or RIA investor M&A deals, more than the 136 total announced through the third quarter in 2020. Of these 189 deals announced year-to-date, aggregators were the most active announcing 86 so far (33 in Q3), with private equity (38 total, 16 in Q3) and RIAs (44 total, 14 in Q3) well behind (asset managers, insurance companies, banks and now one SPAC make up the remainder). Notably, in terms of AUM (in Q3), despite vastly fewer overall deals private equity buyers acquired $69.2 billion in AUM in non-aggregator M&A deals (e.g. excluding Bain Capital's recapitalization of Carson Group and Onex's investment into WEG) compared to $49.7 billion by aggregators and $10.9 billion by RIA buyers. This total of $129.8 billion AUM and median deal size of $3.1 bn are both an increase over Q3 2020 and Q2 2021.

Q3 2021 Top 10 Deal Summary

Of the top deals in Q3 2021, the most interesting takeaway, other than CI Financial being shut out of the top 10 list for the first time this year (their top deal was $5.2 billion), was private equity controlling 7 of the ten spots. This was led by the recapitalization of aggregators and minority stakes in RIAs to alleviate succession concerns. Of the top ten transactions (by AUM), 7 fall all or partially into the capital rationale, with expansion, succession, and scale trailing. We see this trend continuing amongst the larger deals as larger RIAs and Aggregators continue to take minority stakes moving forward. However, we expect that future lists will more heavily see scale as a motivator as larger acquirors continue to target increasing scale through M&A.

Several sources are used to create this report. M&A data is gathered from press releases, trade articles, and other secondary research sources. All publicly announced transactions involving the acquisition of an independent advisory firm are reviewed for inclusion. This data covers the period from January 1, 2021–September 30, 2021

M&A Market Color: Q3 Top 10 Deals

Buyer	Seller	Buyer Type	Seller AUM (billions)	Announcement Date	Transaction Rationale
Raymond James	Charles Stanley	Bank	38.5	7/29/2021	Expansion
Onex Corp	Wealth Enhancement Group	PE	38.0	8/25/2021	Capital
Pritzker Organization	Steward Partners	PE	23.0	6/9/2021	Capital
Cartesian Growth Corp	Tiedeman Group	SPAC	20.0	9/20/2021	Capital
Bain Capital	Carson Group	PE	17.0	7/14/2021	Capital
Emigrant Partners	Gerber/Taylor Capital Advisors	PE	13.8	7/22/2021	Scale & Succession
Galway Holdings	MAI Capital Management	Insurance	12.3	8/17/2021	Capital
Merchant	Concurrent Advisors	PE	12.2	7/28/2021	Capital
New Mountain Capital	Homrich Berg	PE	10.0	7/30/2021	Succession
Focus Financial Partners	Ancora Holdings	PE	9.4	9/1/2021	Capital

Several sources are used to create this report. M&A data is gathered from press releases, trade articles, and other secondary research sources. All publicly announced transactions involving the acquisition of an independent advisory firm are reviewed for inclusion. This data covers the period from January 1, 2021–September 30, 2021

Dynasty's M&A and Capital Strategies Team

How we help RIAs grow

The Dynasty M&A and Capital Strategies team offers three primary service offerings to RIAs to help them reach their next level of growth.

The first service offering is **valuations**, which provides an objective view for an RIA owner's enterprise by leveraging Dynasty's experience and insight. These valuations have a variety of uses including: M&A level-setting, internal succession, performance benchmarking for founders, and ongoing governance.

The second key offering is **transaction support**. Our team offers objective buy-side M&A support to help an RIA originate, value, structure, and close any M&A deal. We do so by leveraging a deep bench of Wall Street professionals who have collectively over 50 years of M&A experience. Our team can provide expert help with any number of transaction support related tasks including deal sourcing, transaction structuring and negotiations, due diligence support, and finalizing and closing deals.

As a financial technology and value-add wealth management platform, Dynasty Financial Partners began its capital program nearly 8 years ago with our traditional debt program based on the needs of our clients.

Today, DCS has the most diversified capital offering in the industry that is exclusively for its clients

Dynasty's M&A and Capital Strategies Team

Finally, we can help RIAs access liquidity without giving up control of their business through three primary capital solutions, including our Traditional Credit, Revenue Participation Interest (RPI), and Minority Investment programs:

01

Traditional Credit

- Primarily term loan structure with revolving credit facility and guidance facility also available
- Covenant lite
- Interest only feature available
- Minimum term
- Amortization payments required
- Origination fees apply
- No use case restrictions

02

Revenue Participation Interest (RPI)

- Preferred equity structure that monetizes a percentage of revenue
- Innovative "true up" feature offers incremental capital to support growth
- Principals may repurchase revenue interest after a fixed period of time
- Minimum payment thresholds
- No use case restrictions

03

Minority Investment

- Noncontrolling, passive equity structure with minimum 6-year investment period
- Favorable liquidity options – ability for RIA to sell additional equity upon Dynasty exit
- Limited governance terms
- Minimum 7.5% dividend
- No use case restrictions

All of our capital programs are designed exclusively for RIAs to support a firm's strategic growth objectives. Please reach out to us and let us know how we can be helpful in tailoring a capital solution that is right for you and your firm.

Dynasty's M&A and Capital Strategies Team

Harris Baltch

Head of M&A and Capital Strategies

Harris Baltch is responsible for leading Dynasty's M&A and Capital Strategies division. Prior to joining Dynasty, Harris spent nearly a decade at UBS Investment Bank where he was an Executive Director in the firm's Financial Institutions Group. While at UBS, Harris originated, led and executed over $10 billion of strategic M&A and capital market transactions for companies in the asset and wealth management industry. Earlier in his career, Mr. Baltch worked at PricewaterhouseCoopers LLP in the Banking and Capital Markets Group. He has over 15 years of financial services experience and earned his M.B.A. from the Johnson Graduate School of Management at Cornell University. He also received a B.S. in Accounting at Binghamton University and is a certified public accountant, registered in the State of New York.

Chris Marsh

Vice President

Chris Marsh is a Vice President in Dynasty's M&A and Capital Strategies division. Prior to joining Dynasty, Chris spent four years at Evercore, a leading independent investment bank, where he was a Vice President in the Global Advisory practice. While at Evercore, Chris led and executed on over $15 billion in M&A transactions and strategic advisory engagements for companies across a variety of industries. He received his M.B.A. from Columbia Business School and B.S. in Systems Engineering from the University of Virginia, where he was a Rodman Scholar.

Brett Dewing

Assistant Vice President

Brett Dewing supports Dynasty's M&A and Capital Strategies team. Prior to this role, Brett spent time as a Summer Analyst with Dynasty's Investments team and as a Summer Equities Analyst with Cowen Inc.'s Execution Services group. Brett graduated from the University of Virginia with a B.A in Economics and a Minor in Spanish. In his free time, Brett enjoys playing tennis and is a passionate supporter of teams from his hometown of Houston, Texas.

William Ross

Senior Associate

William Ross supports Dynasty's M&A and Capital Strategies team. Prior to joining Dynasty, William worked as an Associate for Emigrant Partners, focusing on sourcing and executing new investments. William was previously a Fixed Income Portfolio Management Associate at U.S. Trust, managing over $1.0 bn of fixed income assets. Prior to U.S. Trust, he worked as an intern at Wolfe Research on the consumer staples team. William received his MA in Management from the University of St Andrews (UK) and was Vice President of the varsity ice hockey team.

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CAPITAL STRATEGIES

Get In Touch

We look forward to hearing from you, any questions may be subsequently featured in upcoming issues!

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