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CAPITAL STRATEGIES

Inside the Deal M&A Newsletter

Q1 2022

A Brief Note from the Team

Welcome to 2022 and the fifth edition of our quarterly newsletter, Inside the Deal!

As always, Dynasty Financial Partners aims to educate our clients and readers on the key trends we are seeing in Wealth Management M&A. We hope to provide you with specific insights into 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 chosen M&A strategy.

For our fifth issue, we reflect on the first quarter of 2022 and project what might yet be to come in the next 9 months. All indications continue to 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

2022 Q1 M&A Market: Executive Summary

Since our last newsletter, so much has changed in the world, including the Russia-Ukraine War, oil prices reaching levels not seen since 2014, and interest rates beginning to rise. In contrast, for RIA M&A activity, very little has changed: demand to acquire RIAs continues to surge and valuations remain at elevated levels. 2022 experienced a similar start to 2021, with a January M&A surge similar to the one we experienced last year, and concludes with the same overarching question: Can M&A continue at the same feverish pace for the rest of the year?

This section concluded 2021 with the open question of whether 2022's M&A deal volume could surpass the all-time highs of 2021, if it could possibly sustain the multi-year acceleration. January quickly dispelled any concerns of a slowdown with 27 announced RIA M&A transactions alone. This represented a near all-time record for a single month. In an echo to the cadence of Q1 2021, we saw an active February with 20 RIA M&A transactions while March solidified Q1 2022 with 22 announced deals. The cause of this intra-quarter deal dispersion is likely due to January benefiting from a rush of year end deals spilling over, as many reported January and even February transactions were agreed upon before 12/31.

The end result was that Q1 2022, despite a slightly slower start compared to Q1 21, continued what we might now call the 'new normal' in M&A deal announcements, hitting 69 total pure RIA M&A transactions (+/-0% over 1Q 2021) and 268 LTM (+/-0% trend over 2021).

The story remains the same, for now (see our first theme below). We see the long-term drivers of outsized RIA deal volume we discussed in 2021 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 factors, combined with other drivers we explored throughout 2021, provided an additional push, including concerns of a possible long-term capital gains tax increases and the recapitalization of multiple major consolidators and aggregators.

That said, when forecasting our M&A market for the rest of 2022, it is important to gauge the sentiment for some of the most frequent buyers in the landscape.

Source: Dynasty Financial Partners, public information including press release, trade articles, and other secondary research

2022 Q1 M&A Market: Executive Summary

- Captrust continues its M&A strategy which aims to give it a presence in every US city that hosts an NFL team. Q1 saw the prolonged expansion continue to the homes of the Saints and Titans (New Orleans and Nashville) respectively[1]

- Mariner wants to double advisor count to 500 in the next 2 years (this after 12 M&A deals in 2021 and 3 in 2022 since recapitalization) [2]

- Focus Financial Partners announced during its earnings call a plan to increase its partner firm count by 50% to 125. For reference, Focus and its affiliated firms closed 38 transactions to end 2021 with 84 partner firms[3 4]

- Overseas expansion by U.S. firms looks set to continue for the foreseeable future from the joint efforts of Wren Sterling, AFH Financial and Focus Financial subsidiary Connectus Wealth Advisors[5]

- On the flip side from the bullish sentiment, CI Financial's CEO Kurt MacAlpine stated in his Q4 earnings call that he did not see their growth continuing at nearly the same rate:

> "The pipeline is robust. It's definitely a little bit more moderated than what we saw last year. People were getting in front of potential tax law changes, which pushed a lot of the activity through to Q4…I would say the pipeline itself is smaller than last year but it's not smaller than what we had anticipated, seeing the activity get pulled forward into 2021.[6]"

If CI Financial, who accounted for 13 total deals and over $75bn in total AUM acquired in 2021 (roughly 5% and 7% of the yearly total respectively) takes a step back, it will be interesting if other buyers correspondingly fill the 'void'.

[1] Citywire– 'Captrust buys $1.5bn New Orleans RIA' (2022)

[2] Citywire– 'Mariner looks to add 500 advisors in recruiting push' (2022)

[3] Citywire– 'Focus plans 50% boost in partner firms on road to $4bn revenue' (2022)

[4] Financial Planning– 'Focus Financial says record acquisitions propel firm to new heights' (2022)

[5] Financial Advisor IQ– 'RIA M&As Hit New Record in 2021, More to Come: Echelon' (2022)

[6] Citywire– 'CI Financial buys $5bn RIA, but forecasts M&A slowdown' (2022)

2022 Q1 M&A Market: Executive Summary

In the end we believe market sentiment from in-market RIAs will tip any scales, and as a DeVoe survey (fielded in Q3 2021)[7] of over 130 RIA executives of firms ranging $100mm to $5bn found:

> 47% of advisors believe that activity will rise somewhat

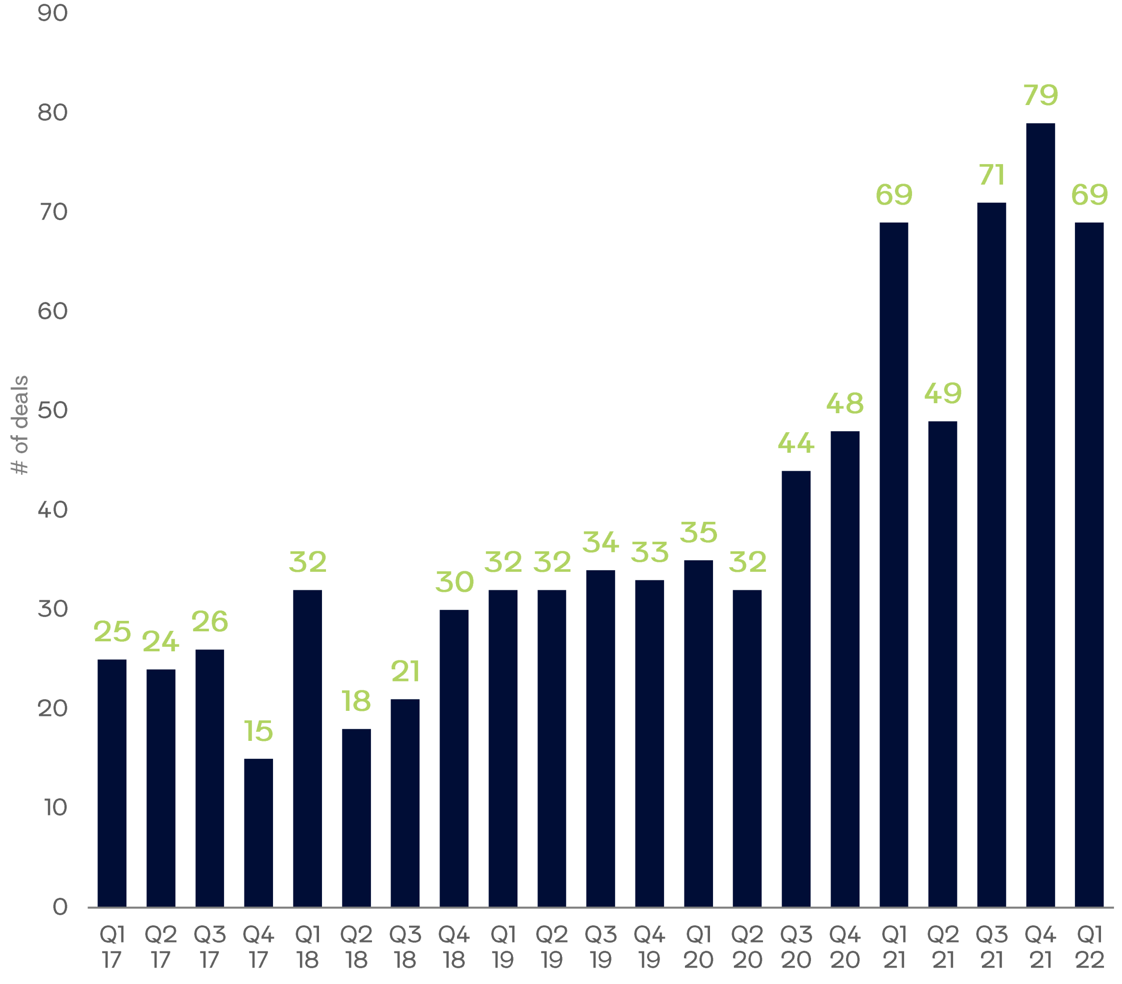
> 16% believe activity will rise considerably

> a majority of financial advisors believe that M&A activity will only pick up pace in 2022

In summary, with no signs of expected deal fatigue or volume appreciably slowing down (aside from CI Financial-who even with their 'smaller pipeline' produced their largest AUM deal yet in Q1), we would not be surprised to see another attempt at an all-time record year of RIA M&A for a 10th straight year!

[7] Financial Advisor IQ– 'FAs Expect RIA M&A Activity to Pick Up Pace: Report' (2022)

RIA M&A Deal Volume Q1 2022



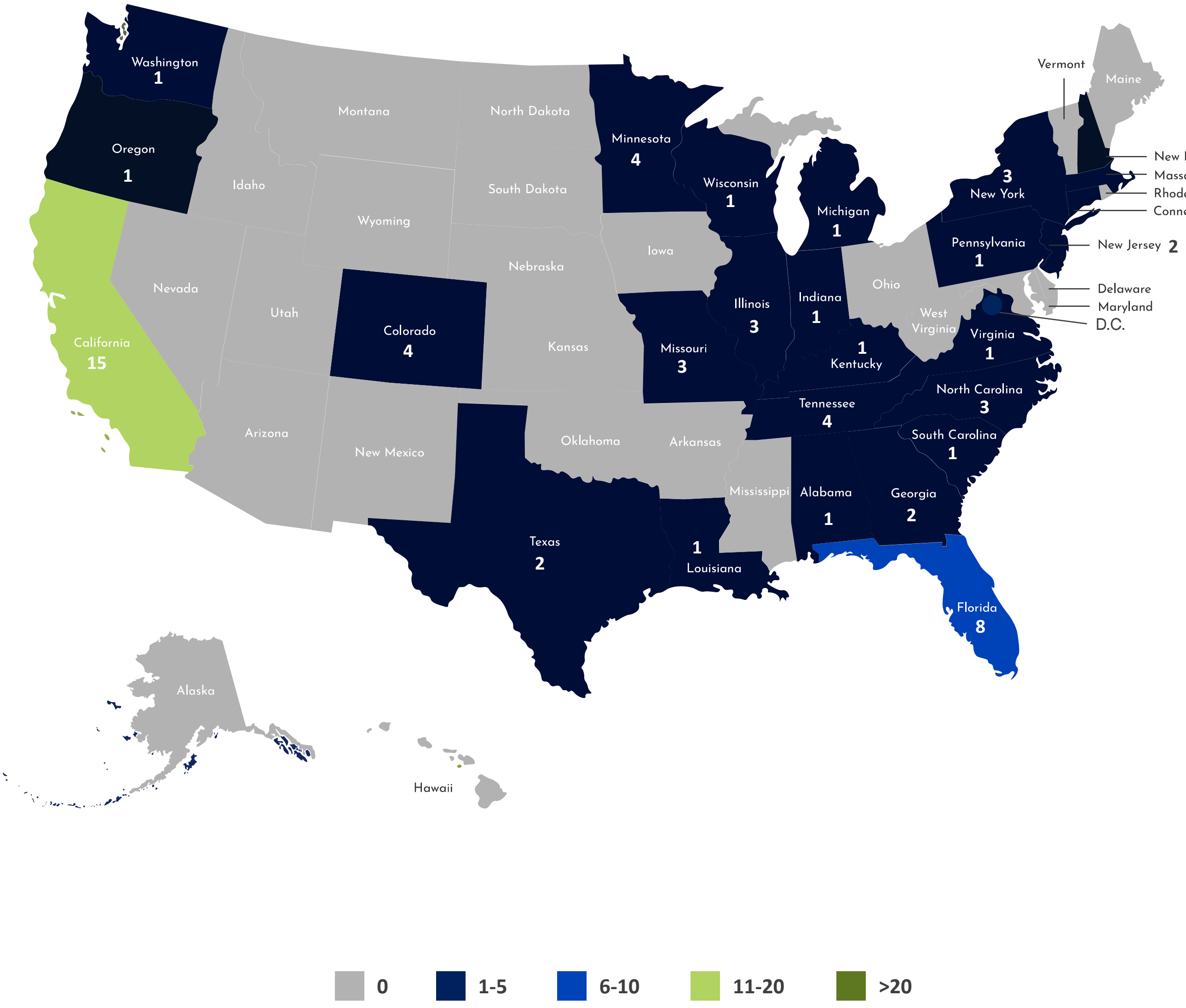
Source: DeVoe – 'DeVoe & Company RIA Deal Book' (2022), Dynasty Financial Partners, public information including press release, trade articles, and other secondary research

Q1 2022 Key Themes

As we enter 2022, we review and analyze the year:

1. 'A New Era' of Rising Interest Rates
2. RIA Investment Banking
3. 'Minority Capital in Name Only' Meets Aggregators
4. Robo-advising M&A Overview
5. 'The Future is Flat?'

2022 National Deal Data Breakdown

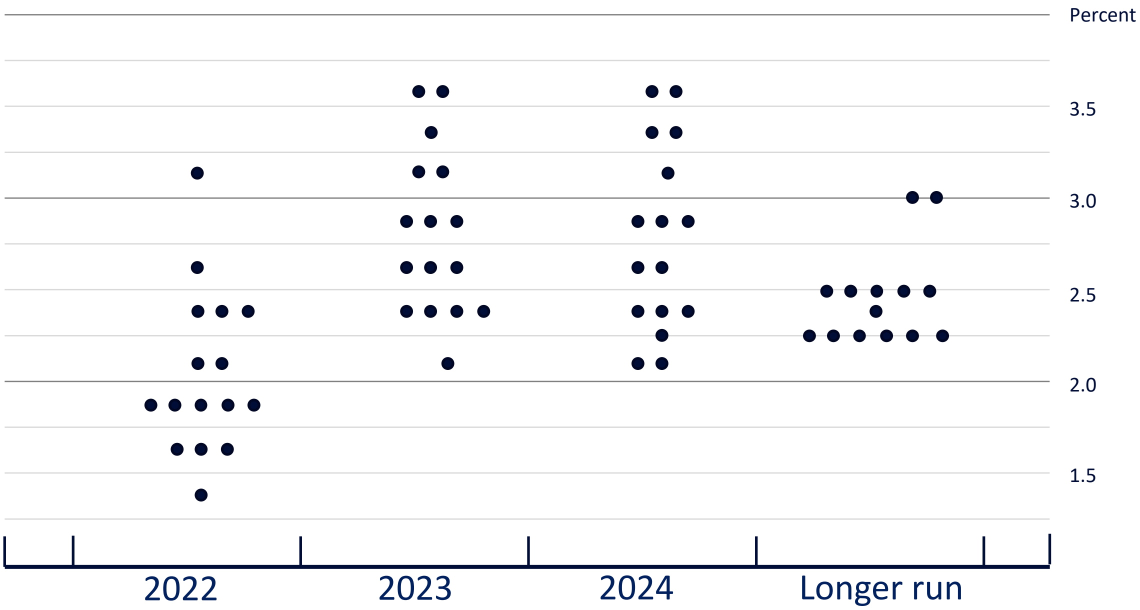


Source: Dynasty Financial Partners, public information including press release, trade articles, and other secondary research

Theme 1

'A New Era' of Rising Interest Rates

March 2022 FOMC Dot Plot



As depicted above, the Federal Reserve's dot plot released after the March FOMC meeting marks the end of an era. Underscoring a dramatic pivot away from their stance in September 2021, Fed officials originally signaled three projected rate increases (Chairman Powell announced the first quarter-point in March). This is the culmination of the market hitting two primary criteria repeatedly put forward by Fed officials: (i) inflation persistently above 2% and (ii) tightness/maximum employment in the labor market. With the most recent inflation numbers handily exceeding 2% (PCE, personal consumption expenditures, inflation is currently projected to be 4.3% for 2022), and the unemployment rate dropping from 5.2% (in August) to 3.9% (in February) according to the Bureau of Labor, these criteria look set to deliver the new era promised by the dot plot. With Fed officials now expecting six additional rate increases in 2022, this (if realized) will potentially have significant effects on the broader RIA ecosystem, which will include M&A activity.[8]

A new era of rising interest rates will have significant implications on an RIA's clients, firm valuations and capital, and certain buyer types like aggregators.

Source: FOMC Committee: 'Summary of Economic Projections'

[8] Mercer Capital– 'National Economic Review' (2022)

Theme 1

'A New Era' of Rising Interest Rates

Clients

As the coronavirus pandemic changed the way in which most RIAs engaged with and serviced their clients, rising interest rates will force advisors to prepare for a conversation which has been nearly a decade in the making: how a rising interest rate environment and shifting market expectations will affect their portfolios and will likely necessitate investment decisions around asset class allocation, duration, inflation hedge opportunities, and currency exposure amongst many other topics.

Valuations and Capital

An interesting domino effect of rising rates is the impact on valuations and capital structure of RIAs. Although the continued entrance of new buyers, primarily fueled by private equity capital either directly or indirectly, is a large driver of heightened RIA valuations and M&A, cheap debt fueled by low interest rates has long been a key undercurrent. It is this relationship which has supported continued record M&A activity, ability of RIA owners to finance the equity transfer to their next generation and help drive overall RIA capital structure.

To what extent rising interest rates will impact the willingness or ability of buyers to pay current valuation levels and for RIAs to access capital for business purposes remains to be seen, **but it will be one of the most important aspects to monitor over the coming years if rates continue to rise.**

Aggregators

As has been talked about repeatedly in this newsletter, many aggregators and other buyers in the RIA landscape have been recapitalized over the past several years. These recapitalizations have taken the form of new minority or majority backers (if they are not already private equity investors themselves), accessing the public equity markets, and/or increasing leverage. **In a new era of higher rates, an aggregator's ability to continue to make acquisitions, as well as service its debt, will be something to monitor.**

Theme 1

‘A New Era’ of Rising Interest Rates

Two notable first quarter announced credit facilities in the wealth management industry include:

1. Assetmark, who has been vocal about wanting to do further deals in the wealth space, added a new $500 million credit facility which “consists of a $375m revolving credit facility and a $125m term loan. The credit facility also includes an ‘accordion’ feature, which gives the TAMP the option to add another $100m of borrowing capacity if need be. The new credit facility is initially priced at SOFR +1.875%. AssetMark’s current primary source of debt, a $250m revolving credit facility set to mature at the end of 2024, is priced at LIBOR + 2%.”[9] Assetmark recently bought planning software maker Voyant and is majority backed by Huatai Securities.

2. Mariner Wealth Advisors, a huge buyer since their last equity recapitalization, also announced a new credit facility in the first quarter. The $75 million in fresh funding from Penfund (a Canadian Private Equity firm) is already earmarked for continued M&A activity. While the deal terms were not officially announced, we can project that the terms will look somewhat like their prior lines of credit listed in aggregate below.[10]

Aggregator Name	Total Size of Facility ($ MM)	Median Margin	Gross Leverage
Focus Financial	$ 3,073	2.54%	4.9x
Hightower	$ 1,555	4.33%	6.1x
Mariner Wealth Advisors	$ 650	3.58%	3.7x

To conclude, the projected sustained interest rate increase for the first time in over a decade will likely recalibrate M&A speed, execution and capital deployment. Given we are exiting historic all time lows, we project initial rate hikes to not materially impact M&A pipelines this year, but this will be an ongoing theme to watch over the coming few years if the current Fed rate increases continue as currently expected. That said, if a firm is consistently growing AUM and client numbers organically year over year, an RIA will always find buyers willing to pay a premium regardless of the interest rate environment.

[9] Citywire– ‘AssetMark adds $500m credit facility’ (2022)

[10] Citywire– ‘Mariner raises $75m from Canada’s Penfund’ (2022)

Source: RBC Capital Markets – ‘U.S. Asset & Wealth Management Monthly – February Edition’ (2022)

Theme 2

RIA Investment Banking

An understated aspect of RIA M&A that we have not yet touched on in this newsletter is the importance of advice and what a skilled investment banker can do to maximize an outcome for a buyer or a seller. M&A advice can take many forms, from consultants who serve as matchmakers between RIAs and advisors to dedicated investment bankers who not only can be a good matchmaker, but also know how to value deals, structure them, create competitive tension, and help negotiate business points in partnership with legal advisors to get deals closed.

So, the million dollar question, how does the expectation compare to the reality? While many advisors remain anonymous to the public, the below tables breaks down some information related to publicly closed RIA deals involving an investment bank in Q1 2022.

1 **Avg deal size for Q1 M&A deals utilizing an IBank was $1.9 bn**

2 **Number of Q1 M&A deals utilizing an IBank totaled 22**

3 **Top buyers:**
(4) Creative Planning
(3) Cerity Partners
(2) Beacon Pointe, Mercer Global Advisors

A few qualifiers before we can unpack the above:

01 These are publicly announced investment banking numbers. Many transactions involving investment banks, for whatever reason (and there are a few), decide that they do not want to announce the advisors with the initial deal announcement.

02 Some investment banking involvement is announced significantly after the initial deal is publicly announced and are not reflected in the above.

03 Some investment banks prefer not to announce their involvement

04 Not all investment banking involvement is created equal

All of these qualifiers obscure the true reality of investment banking use by RIAs and result in the number of publicly announced deals, 22 total in Q1, being far lower than the true number.

Source: Dynasty Financial Partners, public information including press release, trade articles, and other secondary research

Theme 2

RIA Investment Banking

Those four qualifiers aside, the key takeaways:

1. Larger firms utilize investment banks more
2. Certain aggregators tend to avoid deals marketed by investment banks and prefer to originate their own
3. PE buyers tend to utilize investment banking relationships to help originate deals more than other buyers

So what is stopping the further use of investment banks in the RIA space? Here are a few current roadblocks:

01 **Lack of capacity for the current RIA investment banks given strong deal flow**: RIA focused investment banks have not been able to scale up fast enough to keep pace with the rising amount of M&A. Anecdotally many firms have even stopped taking on new clients during this sustained increase. It is for this reason, partially, why there have been increased competition among investment banks for talent and a push for new entrants into the space.[12]

02 **Buyer Brainwashing:** RIA owners can be overly trusting in thinking that any buyer (usually an aggregator) is being 'fair' in their initial and subsequent valuations of their business

03 **Relationships fortified before sale:** Aggregators' long term relationship with RIAs, cultivated so that they will be first in line when those founders are ready to transact, a process which sometimes takes years

04 **Perception of conflict**: Many RIA owners hail from the wirehouse universe and might have conflicted feelings regarding their prior employer's investment bank

Shirl Penney, founder and CEO of Dynasty Financial Partners, recently said: "It amazes me how many advisors who are frustrated sold to the first firm they met and failed to do the same level of due diligence they would recommend to their clients on a sale of all or a part of their businesses. What advisors need to understand is PE firms negotiate and transact on investments all the time; most advisors don't."[11]

As the industry continues to mature, we project that the usage of RIA focused investment banks will continue to increase, and varying types of advisory focused firms will enter the market pushed by that clear need and further adoption. Recent deals, including the failed acquisition of Fieldpoint's investment advisory business by Summit Financial and Merchant Investment Management, underscore the industry wide need for quality investment banking advice. As firms look to unlock new value through M&A, a lack of quality outside advice can lead to a disaster.

[11] Financial Planning– 'PE's big catch: RIAs. Is the haul sustainable?' (2022)

[12] Citywire– 'Republic Capital hires DeVoe banker in Dallas' (2022)

Theme 3

'Minority Capital in Name Only' Meets Aggregators

As this newsletter has noted in prior editions, minority investments in RIAs have ticked up significantly in recent years, most broadly utilized by larger ($1 billion+) RIAs for succession, M&A, and scale.

One aspect of these transactions, under increasing review, has been how minority investors can exercise outsized influence on an RIA. These degrees of influence can vary from a budget review and approval process to 'micromanaging' any expense over $25k and a blanket veto on all hiring/firing decisions. What has gone under less examination has been the effect minority investment has had on aggregators.

Recent aggregator recapitalizations:

Bain recapitalized Carson at a valuation greater than $1 billion

Notable changes and effects:

According to Carson Group co-president Teri Shepherd, "(Bain) believes that the market is very ripe for us to continue to do M&A, and not just minority interest swaps, but looking more at 100% deals. That's going to be a big focus going forward."[13] This is a seismic shift from a firm who built their newly minted $1 billion valuation off those very minority deals. To underscore this fact, a reminder that Carson Group's M&A activity to date has been nearly entirely swapping equity in itself with advisors in exchange for a 25% equity interest in their practice. The deals are sometimes consummated with advisors who are already tied to Carson Group through its Carson Partners affiliation model, which has advisors pay Carson a basis point fee for access to its investment platform and technology. [14]

Beacon Pointe recapitalized by KKR

Notable changes and effects:

Not quite as much of a pivot in investment strategy as Carson, though Beacon Pointe did announce after the KKR investment that they would be focusing on sub acquisitions within their current RIA geographies. Historically Beacon has focused on expanding into the Midwest and southeast where it did not currently have offices.[15]

[13] Citywire – 'Carson to start taking majority stakes in RIAs' (2022)

[14] IBID

[15] Citywire – 'Beacon Pointe acquires five RIAs, plans sub-acquisitions for 2022' (2022)

Theme 3

‘Minority Capital in Name Only’ Meets Aggregators

All this control over strategy makes sense, namely that the party with the purse strings and more (general) deal experience would have an outsized hand in the direction of the actual deals. As Beacon Pointe’s CEO Shannon Eusey said post transaction: "With the support of KKR's deep experience and resources, Beacon Pointe will have the opportunity to further invest in the business and continue to expand.”[16]

We do not see this influence being limited to what we have mentioned thus far; we expect to see these minority backers directing more and more strategic decisions.

Other notable examples include:

> In the wake of the Ladenburg buyout, Price said Advisor Group plans to ‘continue to play’ in the M&A space: ‘we’re good at it, and it’s still a consolidating industry.’ Once Reverence comes seeking liquidity several years down the line, Price said an IPO could be a ‘likely’ option for Advisor Group.[17]

> Four years into its investment from private equity firm Lightyear Capital, Cerity Partners reports that it’s hearing pitches from potential new investors.[18]

A new investment can potentially cause wholesale change to core business model/appeal to advisors:

> Under a change in strategy and recapitalization by its private equity backer and new secondary investors in recent years, Hightower has adopted the brokerage firm tactic of suing ex-advisors.[19]

As the last three years have seen aggregators, including but not limited to Creative Planning, Edelman Financial Engines, Captrust, Mariner, Mercer, Carson Group, Sanctuary Wealth, Beacon Pointe Advisors and Savant Wealth Management take outside capital, it will be interesting to see how their new business partners will influence business decisions beyond enabling them to continue to compete in the surging RIA M&A market.[20]

[16] Citywire – ‘How Advisor Group plans to grow’ (2022)

[17] IBID

[18] Citywire – ‘Cerity Partners is ‘receiving strong interest’ from potential investors’ (2022)

[19] Financial Planning – ‘Hightower’s lawsuits call its independence into question’ (2022)

[20] Citywire – ‘Here’s what private equity funds see in RIAs’ (2022)

Theme 4

Robo-Advising M&A Overview

Robo advising M&A is back in the RIA news. Many firms have been weighing whether to "buy it vs. build it", from T. Rowe Price launching its hybrid robo advisor for households over $250,000 in Q3 2021, to TD Bank rolling out two different stand alone and hybrid robo offerings in Q4 2021. So far in 2022, we have seen the following M&A deals:

Date	Buyer	Buyer Type	Seller	Seller Type	AUM
1/20/2022	SageView	Advisory Group	Capital One Investing	Robo Advisor	$0.9 bn
1/25/2022	BMO and Envestnet	Bank	Ellevest	Robo Advisor	$1.0 bn
2/2/2022	UBS	Bank	Wealthfront	Robo Advisor	$28.0 bn
2/8/2022	Betterment	Robo Advisor	Makara	Crypto Robo Advisor	N/A

This is a sizable bet by some of the largest players in the wealth management space that robo advising will be a sizable force in the future. Given that, it is worth taking a step back at some recent surveys:

MagnifyMoney survey of 1,522 Americans [21]

- 95% of FA clients believe the services are worth the money
- 45% of those not working with a FA think those services cost over 5% per year
- 82% of the respondents would rather entrust their investments to a financial advisor rather than a robo-advisor
- 25% believe they don't need an advisor until they're middle aged
- 29% of Gen Z say they would prefer a robo advisor

Vanguard survey of 1,518 investors [23]

- 90% of investors with FAs won't switch to robos
- 88% of robo clients would consider switching to a FA
- Perceived value-add of a human advisor to annual portfolio performance is 5% compared to 3% for digital offerings

Broadridge survey of 1,000 investors [22]

- Of those not using an advisor (39%), 65% plan on beginning to use one
- Despite 1/3 being familiar with robo advising, only 6% utilize it

[21] Financial Advisor IQ – 'Many Americans Think FAs Are Only for the Wealthy: Survey' (2022)

[22] Wealthmanagement.com – 'Survey: Millennials Increasingly Turn to Financial Advisors' (2022)

[23] Financial Advisor IQ– '90% of Investors with FAs Won't Switch to Robos' (2022)

Theme 4

Robo-Advising M&A Overview

Important to keep in mind is the consistent drip of negative news concerning robo advisor performance and clear growing pains which includes the 10% cash allocations in Schwab Intelligent Portfolios since its inception in 2015 (resulting in over $1 billion in lost gains),[24] Robinhood being fined over $70 million for giving false information to its clients in Q3 2021,[25] and the exit of a large robo player in Q1 2022.

This perhaps contributed to Capital One, of the largest banks in the United States, exiting its ~$900 million AUM hybrid robo advisor Capital One investing (formerly known as United Income) after only two years post purchase as well as Acorns (primarily backed by BlackRock), who has recently aborted their $2.2 billion SPAC merger, instead raising $300 million from a number of investors. [26] [27]

The SEC and FINRA in particular have increased their focus on the business practices of robos as they see a darker shade of grey to the 'digital engagement' complete with behavioural prompts, gamification features, and potentially predatory marketing features.[28] The SEC also found that nearly every robo advisor is currently falling short of compliance duties following a series of recent examinations. [29]

In the end we see robo advisors as expanding access to advice for those below the current account minimums rather than cannibalizing current advisors and RIAs-potentially a hybrid model which allows advisors to efficiently and profitably service smaller clients.

[24] Wealthmanagement.com – 'Report: Schwab's Cash Strategy Costs Investors—and Itself—Millions' (2021)

[25] Financial Planning – 'SEC requests public comment on digital brokers and robo advisors' (2021)

[26] Citywire– 'Capital One looks to sell recently-acquired robo: Sources' (2021)

[27] RIABiz– 'Cash-flow negative Acorns raises $300 million in bridge capital after failed IPO bid, which allows 'anchor investor' BlackRock to increase its stake at a reduced valuation' (2022)

[28] Financial Planning– 'SEC requests public comment on digital brokers and robo advisors' (2021)

[29] Financial Planning– 'Most robo advisors don't meet compliance rules, SEC finds' (2021)

Theme 5

‘The Future Is Flat?’ Flat Fee Firms Entering The Space

Fee compression has continued to be top of mind for RIAs in recent years. This is in many ways a result of the transition from the wirehouse fee model to the RIA model, as the market saw the advantages of the percentage of AUM model versus the prior commission orientated program. Might the next potential shift be to a flat fee model?

The culmination of many RIA fears of a flat fee model (as well as the continuing robo spectre on the horizon) would look like tech-advisor hybrid Facet Wealth. Facet recently raised $100 million in its latest round of funding and is now backed by Durable Capital Partners, TeleSoft Partners and Green Cow Venture Capital in addition to its previous funder Warburg Pincus (who also backed Edelman Financial Engines beginning in March 2021). Facet Wealth features an innovative futuristic (for the RIA universe) business model: it pairs its financial investing technology with human planning advice, delivered by its 100+ staff of CFPs. The revenue which funds this level of service (in addition to its now over $160 million cumulative funding by its PE backers) is a flat subscription-based fee. This fee is supposedly one of the ‘lowest in the industry’ and is tied to the level of complexity in the client’s situation according to Anders Jones (CEO of Facet).[30]

Obviously, charging a flat fee for certain services is not new, 64% of advisors do charge a flat or hourly fee for planning services. What is novel is providing a flat fee for all services for all clients, something which only a small minority of advisors report to do according to Ignites Research and the FA-IQ Leadership Council. In fact according to Loren Fox (Ignites Research) “the AUM model continues to grow, both by drawing advisors who had used commissions and by attracting advisors who had tried flat fees or other models and returned to straight AUM”.[31]

[30] Wealthmanagement.com – ‘Facet Wealth Raises $100M in Series C’ (2022)

[31] Financial Advisor IQ – ‘How and What Advisors Charge Clients — What’s Changed?’ (2022)

Theme 5

'The Future Is Flat?' Flat Fee Firms Entering The Space

Types of Fee Structures Advisors Use for Clients

Note: 2019 figures based on 471 advisors surveyed; 2021 figures based on 286 advisors surveyed

Source: Ignites Research, FA-IQ Leadership Council

	2019	2021
Pct. of AUM Only	41%	45%
Pct. of AUM + Commission	23%	23%
Pct. of AUM + Flat fee	17%	21%
Flat fee only	7%	3%
Pct. of AUM + Flat fee + Hourly fee	6%	3%
Pct. of AUM + Hourly fee	3%	0%
Flat fee + Hourly fee only	3%	2%
Commission only	1%	2%
Performance-based fee	0.5%	1%

What would make a pure flat fee model work and expand its overall reach in the market; however, goes back to the underlying economics-can it compete with the traditional percentage of AUM RIA model, especially in an environment which could potentially be exposed to yearly fee compression.

In the case of Facet, the answer remains inconclusive. Facet claims its average client pays $3,000 per year (ranges from $600 to $15,000), and when combined with its CEO's claim of 6,000 clients and an AUM of $1.15 billion (according to the most recent data from IAPD), this equals an effective percentage of AUM of 1.57%. This is far above Cerulli's listed industry average fee of 1.04%, though that figure is for clients with an average account size of $750k whereas Facet's average account is $191k. [32 33]

[32] RIA Intel – 'Facet Wealth Quadrupled to 6,000 Clients Last Year. Here's the Plan to Do It Again in 2021.' (2021)

[33] Financial Advisor IQ – 'How and What Advisors Charge Clients — What's Changed?' (2022)

Q1 M&A Market Color

2022 M&A Activity: An Early Read

After a record year in terms of total M&A deals in 2021, 2022 continued the high deal volume, though appears to have lost some minor momentum. This 'loss of momentum' would seem more a function of the absurdly high deal numbers we have become accustomed to as the 69 total pure RIA transactions is good for third all-time in most transactions in a quarter-hardly anyone's idea of a 'slowing' in the market.

In the first quarter of 2022, of the 69 total RIA transactions, aggregators were the most active announcing 49 (48 in Q4), with private equity 11 (11 in Q4) and RIAs 9 (19 in Q4) well behind (the lone insurance company acquirer made up the remainder). Notably, in terms of AUM (in Q4), despite vastly fewer overall deals private equity buyers acquired $28.1 billion in AUM in non-aggregator M&A deals (e.g. excluding KKR's investment into Beacon Pointe and Kelso & Company's investment into Savant in Q4) compared to $73.8 billion by aggregators and $8.9 billion by RIA buyers. This total of $119.1 billion AUM and median deal size of $1.7 bn are both a decrease over Q4 2021 and an increase over Q1 2021.

Q1 2022 Top 10 Deal Summary

Of the top deals in Q1 2022, the most interesting takeaway, other than CI Financial's dominating the top 10 with the top two deals (after announcing they were looking at a step back in terms of overall pipeline/deal numbers), was the diversity of buyers in the top 10 (and one international investment!). Usually dominated by private equity and a select few aggregators, in Q1 we saw an insurance company and an RIA take spots 3 and 5. Also highly interesting, is that one of the largest deals announced in Q1, Summit and Merchant's acquisition of Fieldpoint Private (which would have been the 7th largest), fell through in dramatic fashion. Of the top ten transactions (by AUM), 4 fall all or partially into the capital rationale, a departure from past quarters, with scale being the most common with 7 overall. Expansion, capabilities, and succession did not feature.

The new diversity of buyers and sellers will be key to watch, though we predict the trend highlighted in prior quarters (increased emphasis on capital) returning to dominant amongst the larger deals as larger RIAs and Aggregators continue to take minority stakes moving forward, and older backers are bought out at the higher multiples we see today. We expect that future lists will continue heavily feature 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, 2022–March 31, 2022

M&A Market Color: Q1 Top 10 Deals Announced

Buyer	Seller	Buyer Type	Seller AUM (billions)	Announcement Date	Transaction Rationale
CI Financial	Eaton Vance Investment Council (Morgan Stanley/Eaton Vance)	Aggregator	11.4	3/31/2022	Scale
CI Financial	Northwood Family Office	Aggregator	11.0	1/11/2022	Scale
Hub International	Taylor Advisors	Insurance	8.3	3/7/2022	Scale
Parthenon	RSM US Wealth Management	PE	7.5	1/6/2022	Capital
Laird Norton Wealth Management	Wetherby Asset Management	RIA	6.6	1/10/2022	Scale
Merchant	Southwestern Investment Group	PE	5.8	1/26/2022	Capital
CI Financial	Corient Capital Partners	Aggregator	5.0	2/22/2022	Scale
NFP Retirement	AFS Advisors	Aggregator	4.6	2/1/2022	Scale
Stratos Wealth	NSC Asesores	Aggregator	4.0	2/28/2022	Capital
Cerity Partners	Daintree Advisors	Aggregator	1.3	3/1/2022	Scale, Capital

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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 premier 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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