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FINANCIAL PARTNERS

Inside the Deal M&A Newsletter

Q2 2022

A Brief Note from the Team

Welcome to the midway point of 2022 and the sixth 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 sixth issue, we reflect on the second quarter of 2022 and the first half of 2022 overall. All indications continue to suggest that the robust M&A market is not going away anytime soon, even as deal valuation multiples perhaps have hit their zenith. Strong valuations combined with a strong buyer sentiment (many of whom continue to 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 Q2 M&A Market: Executive Summary

In our last newsletter, we highlighted that certain RIA investors had expressed concern around a limited M&A pipeline because of peaking valuations and an increased flight to quality in firms that were seeking a partner through a sale. At the same time, we also projected that the all-time record for M&A deal volume we experienced in 2021 was potentially going to be topped in 2022.

Looking back at the first half of the year, and in particular Q2, our prediction very much continues to hold water as 2022 has exceeded 2021's feverish M&A pace year to date. While Q1 2022 merely matched Q1 2021 with 69 total deals, Q2 2022 outpaced Q2 2021 with 71 total deals vs 49 (an increase of 45%!), with a whopping 32 deals alone in June. This represented a new all-time record for a single month.

The story remains the same. We see the long-term drivers of 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 driving growth through consolidation and M&A.

That said, certain drivers have taken on a more prominent role, and in Q2 that was the continuation of aggregator recapitalizations and new private equity backers entering the market. Both of these drivers will be explored in more detail below.

The current state of the market is best gauged and summarized by the sentiment of some of the most frequent buyers in the landscape:

> - Focus Financial Partner's CEO Rudy Adolf: "'A bunch of pundits were saying 2022 was going to be a slow year for M&A, I think they were all wrong." [1]
> - Creative Planning's CEO Peter Mallouk "The market is flooded with sellers, valuations are beginning to soften." [2]

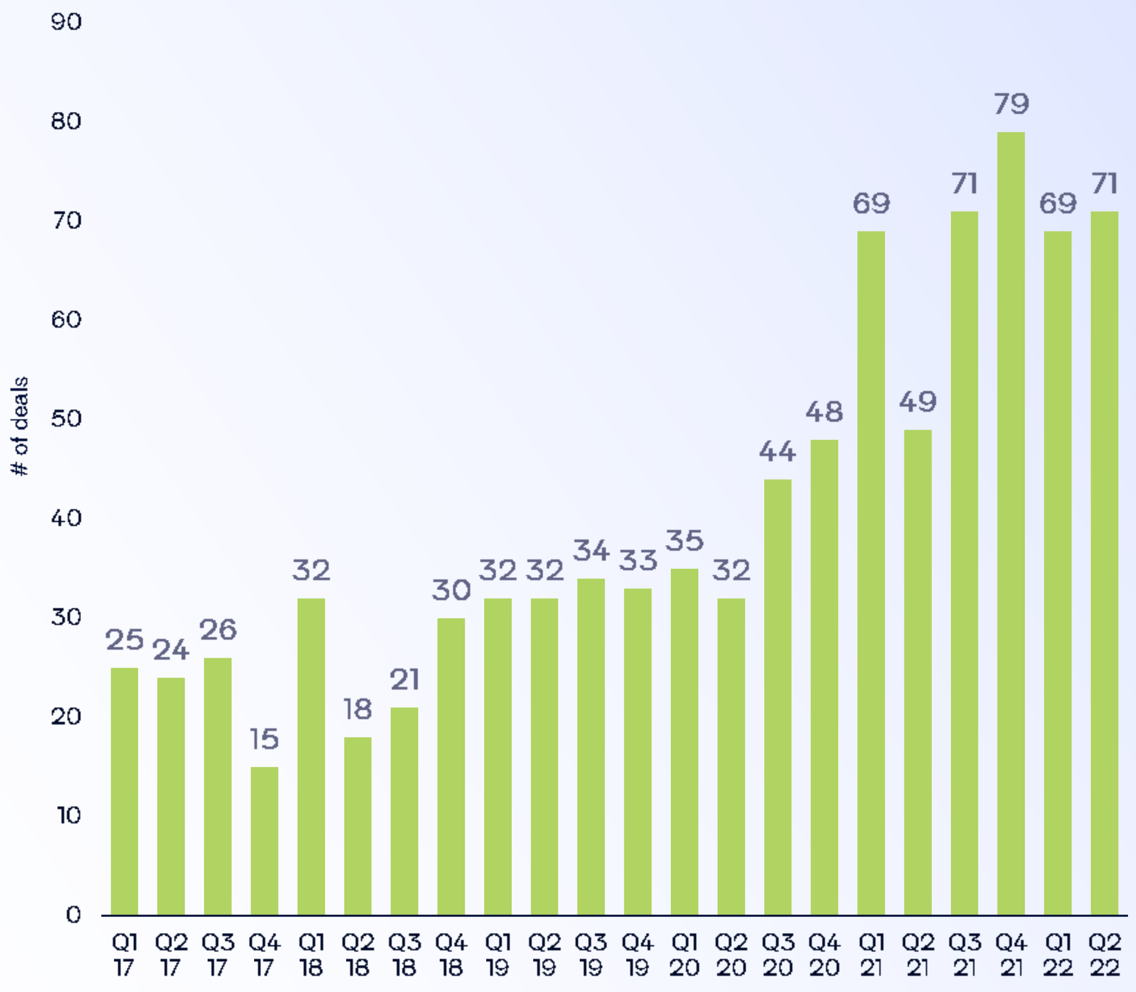
In summary, the market is shrugging off any idea of multiples hitting a potential ceiling as a headwind, instead taking that as a buying opportunity. With no signs of expected deal fatigue or volume appreciably slowing down (instead being buoyed by new entrants and aggregator recapitalizations), we project more of the same in the second half on 2022 and another attempt at an all-time record year of RIA M&A for a 10th straight year!

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

[1] Citywire– 'Focus adds $2bn Houston RIA Icon as partner' (2022)

[2] Citywire– 'Creative Planning enters Massachusetts with $755m RIA buy' (2022)

RIA M&A Deal Volume Q1 2022



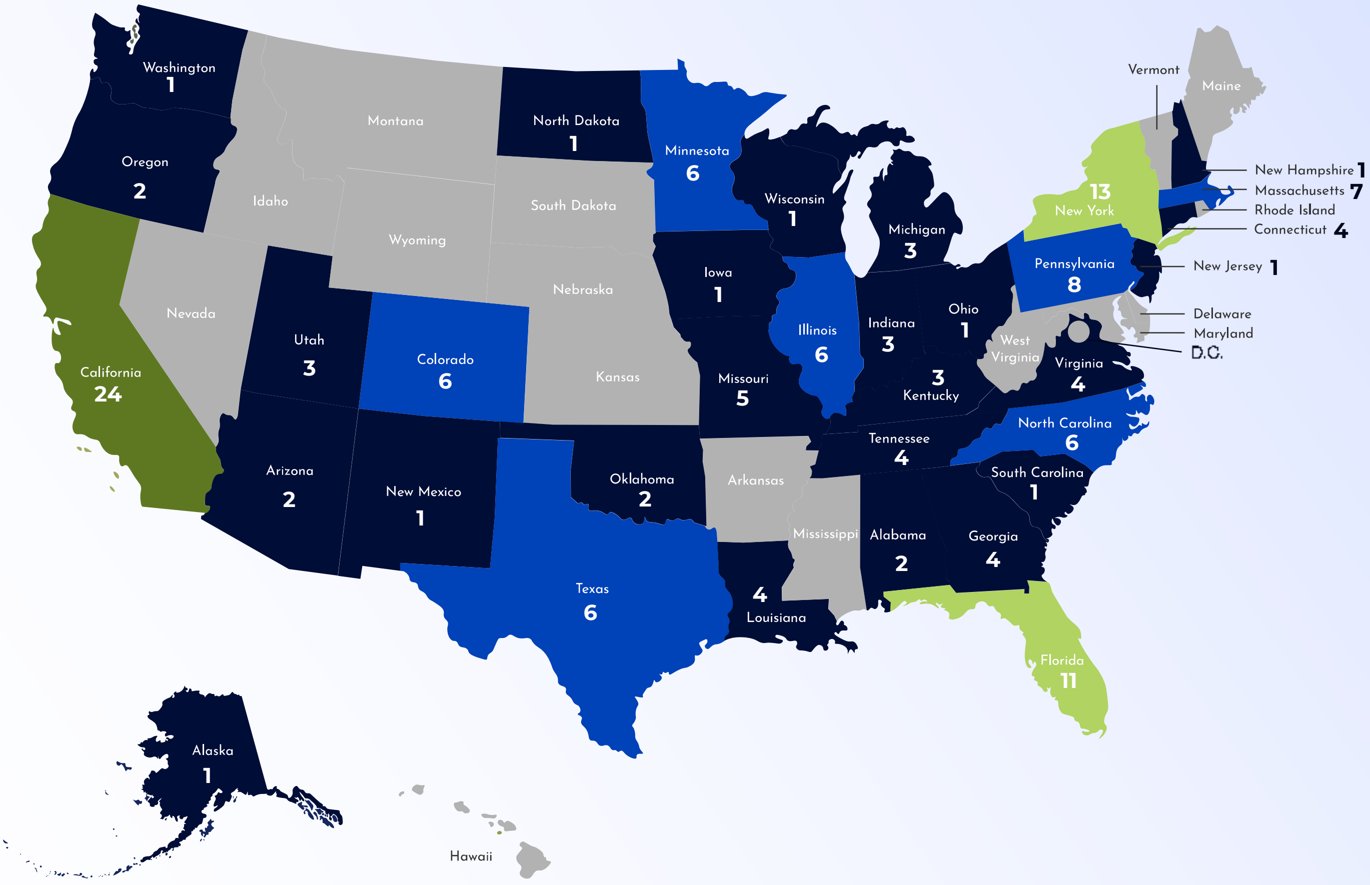
Source: DeVoe – 'DeVoe & Company RIA Deal Book' (2022), Dynasty Financial Partners, public information including press release, trade articles, and other secondary research

Q2 2022 Key Themes

As we reach the midpoint of 2022, we review and analyze the year:

1. Shining a (public) light on the US wealth management industry
2. What happens when a deal goes bust in the 'Field'
3. Early bird gets the fast worm
4. Are new PE players late to the party?
5. Volatility and valuation agnostic

2022 National Deal Data Breakdown



0 | 1-5 | 6-10 | 11-20 | >20

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

Shining A (Public) Light on the US Wealth Management Industry

Theme 1

The public market's pursuit of wealth management sector deals has been well documented.

Here is a brief rundown of recent public market deals and updates:

SPACS

KINGSWOOD ACQUISITION CORP.

WENTWORTH

LOMBARD INTERNATIONAL

Q1 2021:

The New York blank check company Kingswood Acquisition Corp (ticker: KWAC; market cap: $119mm) entered into talks with one of the UK's largest wealth managers, Lombard International (owned by Blackstone since 2014), and an LOI was signed. The rumored price for Lombard was set at $800 million, and although Kingswood asked for additional time to complete the deal in April, it instead switched targets and announced in early May that it reached a preliminary agreement to back Wentworth, an aggregator of broker-dealers who, among other holdings, controls Purshe Kaplan Sterling and totals over 1,500 advisors and $20bn in AUA.[3]

APEX Clearing

Northern Star Investment Corp II

Q2 2021:

It was announced Apex Clearing Corporation (a digital wealth management custody firm) was set to merge with Northern Star Investment Corp II for $4.7 billion. Apex, one of the relatively young tech-forward upstarts in the space, was set for a big splash. Unfortunately, that splash turned into more of a belly flop as it was announced December 8th that the merger agreement was terminated. Initial chatter was that it was Apex who canceled the arrangement due to multiple filing issues originating from Northern Star. Neither Northern Star nor Apex have found another partner since though both are presumably open/looking.[4]

[3] Citywire – 'Kingswood SPAC plans to take broker-dealer aggregator Wentworth public' (2022)
[4] Citywire – 'Apex Clearing's SPAC deal scrapped' (2021)

Shining A (Public) Light on the US Wealth Management Industry

Theme 1

Q3 2021:

Tiedemann Group agreed to merge with Alvarium (an asset manager) and the newly combined entity would be acquired by Cartesian Growth Corporation, to form Alvarium Tiedemann Holdings. The combined company is set to have over $60 billion of AUM (from 24 locations in 11 different countries) and have a post-transaction equity value of approximately $1.4 billion. As of this writing, the new entity is still set to be listed under the ticker 'GLBL' in the second half of 2022 and has received all the pre-closing regulatory approvals. Interestingly according to AITi's investor presentation, inorganic growth in both wealth manager M&A and minority stakes in alternative asset managers will be a focus. [5]

Two other RIA/wealthtech SPACs, Lefteris Acquisition Corp., which closed a $200 million IPO in October of 2020, and Everest Consolidator Acquisition Corp., which closed a $172.5 million IPO in November of 2021, have both yet to find the right seller(s). [6]

This space maintains its view with regards to wealth management focused SPACs. As the wealth management industry continues to evolve, we believe SPACs will provide the potential for unique alternative access for private companies to consider a path to the public markets. Despite the recent regulatory headwinds stemming from SEC proposed rule changes (addressing safe harbor, COI, and the reasonableness of the financial assumptions/projections) , the reasoning for this phenomenon is best described in recent public filings by Lefteris and Everest: [7]

[5] Businesswire – 'Tiedemann Group and Alvarium Investments Announce Transaction to Form Alvarium Tiedemann Holdings and List on Nasdaq via Business Combination with Cartesian Growth Corporation' (2022)
[6] AdvisorHub – 'Kingswood SPAC Seeks More Time As Deadline for Deal Looms' (2022)
[7] PWC – ''SPACs face new regulations. What's ahead for their future?' (2022)

Shining A (Public) Light on the US Wealth Management Industry

Theme 1

Lefteris (March 2022): "We believe the rapid development and sophistication of financial technology presents unique opportunities to accelerate trends and changes underway across the financial services industry[8]

Everest: "The wealth management industry has demonstrated its strength and resiliency in light of several economic disruptions in recent decades, supported by multiple factors including GDP performance, higher disposable incomes and higher rates of saving" [9]

IPO(?)

Racing to beat the SPACs to market is CI Financial's planned spin-off of a 20% interest in its RIA business into the public markets. CI Financial is looking to monetize its run of RIA acquisitions, which includes more than 30 acquisitions since entering the market in 2020 and represents over $130 billion of AUM.

CI's view, according to its CEO Kurt MacAlpine, was simple:

"There's a very big disconnect between our share price and the inherent value of our US wealth management business. I think what you're seeing is our stock trades like an asset management business as opposed to a wealth management business. We're trading at a price-to-earnings ratio of 5.0x or 5.5x and you look at firms like an LPL, a publicly traded company, would trade at ratios more than triple that."[10]

[8] AdvisorHub – 'Kingswood SPAC Seeks More Time As Deadline for Deal Looms' (2022)
[9] IBID
[10] CityWire – 'Why CI is taking its RIA business public' (2022)

Shining A (Public) Light on the US Wealth Management Industry

Theme 1

As of the close of Q2 2022, LPL traded at 32.5x P/E, Raymond James at 12.6x, and Focus at 55.8x, while CI Financial trades at 6.3x (as of 6/30).

Equity analysts, including Edward Jones' James Shanahan, by and large view this as CI's effort to grasp a life vest to escape its increased debt. CI's acquisition spree, which netted more than $130bn in assets, cost more than $1.5 bn worth of debt (in total an aggregate enterprise value of $2.7 bn, the deals included roughly 75% of deal consideration in cash at closing). [11] [12]

According to other market constituents:

> "Kurt's being very upfront about why they're doing this...it still feels like financial engineering to me, and the NPV of financial engineering is usually zero...Will the marginal valuation earned and the marginal buzz generated justify the investment banking fees of another (public) offering, higher ongoing compliance costs, etc.? And is all that worth it just to restructure their balance sheet?" [13]

CI has not yet officially filed its IPO prospectus publicly with the SEC, but has maintained its intention to file its S-1 later this year.

Trouble in the public markets?

So, is CI right about the public markets being a liquidity solution and potential safe haven for wealth management companies?

Its depends.

If and when public, CI's closest comparable in the public markets will be Focus Financial Partners (ticker: FOCS, market cap: $2.7 bn). As of the end of Q2 2022, FOCS was trading at $34.06 per share, 10.4% below its IPO price of $38 (its prospectus range was $35-$39) which debuted in July 2018. Additionally, on May 12th, Focus announced a $200mm share buyback plan, which typically signals to the market that they feel their stock price is i) undervalued and/or ii) there are fewer organic opportunities to support its growth so would rather repurchase its own equity.[14]

[11] CityWire – 'Why CI is taking its RIA business public' (2022)
[12] RIABiz – 'CI Financial's IPO could make the RIA M&A force next to unstoppable if it 'pops', but industry insiders see Focus Financial's stuck stock price as a 'tremendous headwind'' (2022)
[13] IBID
[14] RIABiz – 'As Focus Financial shares languish, Rudy Adolf plans $200 million buyback and rebuffs questions he's overpaying for RIAs--because he avoids 'drunken sailor transactions'' (2022)

Shining A (Public) Light on the US Wealth Management Industry

Theme 1

After being questioned by analysts during its most recent earnings call over industry valuations and M&A pipelines, Adolf responded: “We certainly avoided so many of the, I think I called them 'drunken sailor transactions,' that we have seen last year...And, yes, multiples are stable, if not improving. And yes, some of these, yes, highly over-levered, yes, P/E type models and foreign buyers and others, from what we can tell, are suffering from, yes, some of the deals that they did last year." [15]

In summary:

Between CI Financial, the potential SPAC deals that are on the verge of closing, and others that are in the pipeline, there will be continued demand from outside investors (both public and private) to access growing firms in the wealth management and wealth tech space. Mark Tibergien, former CEO of Pershing, is a relative contrarian regarding firms jumping to the public markets: “When I look at (aggregator) examples like Wealth Enhancement Group or Mercer Advisors or Hightower, these are firms that are entering into new chapters of their growth. And that after so recently receiving new outside PE investment and dry powder for further deals their current valuations reflected long-term growth prospects rather than the expectation they would go public in the near future.” [16]

[15] IBID
[16] CityWire– ‘Mark Tibergien throws cold water on RIA IPOs’ (2022)

What happens when a deal goes bust in the 'Field'

Theme 2

Announced M&A deals have the potential to fail after definitive documents get signed if post-closing conditions are not met. One of the key post-closing items is consent, both by advisors who are expected to move their business as part of the transaction as well as their underlying clients to consent to move their investment advisory agreement to the new owner of the firm. Failed M&A in the RIA industry gets much less attention than announced deals due to the private nature of most transactions. However, recently there was a significant amount of information disclosed around the failed acquisition between Fieldpoint Private and the joint buyers of Merchant Investment Management and Summit Financial. Because of the publicity surrounding this deal, we had the benefit to study it and offer some lessons learned.

The backstory:

Fieldpoint Private was founded in 2008 by former Merrill Lynch CEOs David Komansky, John Steffens and Dan Tully and former PaineWebber/UBS Chief Executive Joe Grano, a group regarded as a 'who's who' of Wall Street titans. Headquartered in Greenwich CT, before the deal was announced Fieldpoint boasted over 100 employees and $5.1bn in wealth management AUM. The attraction for advisors joining was a smaller boutique-sized firm which did not sacrifice the resources of a larger firm as it employed several senior professionals who formerly headed everything from investment research, private client credit, trust, and wealth planning for firms such as Citi Private Bank, Smith Barney, and U.S. Trust. [17] However, recently the firm decided to pivot, according to Fieldpoint Private's Executive Chairman Tim Tully, "we engaged in conversations with Summit when we made the decision to reposition Fieldpoint as a private banking solution for independent advisors, while stepping away from ownership of advisory practices." [18]

The buyer/breakdown:

Headquartered in Parsippany, N.J., Summit Financial backs breakaway advisors. Merchant Investment Management, a minority equity investor in RIAs and RIA-affiliated businesses, has had a minority stake in Summit since 2019. The transaction, as it originally stood, looked to add $5.1bn in wealth assets to Summit: $3.3bn advisory, $1.2bn brokerage and $700mm in reporting only assets. Fieldpoint Private's bank would continue to exist as an independent company.[19]

[17] AdvisorHub – 'Rockefeller Scoops up $6-Mln Fieldpoint Private Team in CT' (2022
[18] AdvisorHub – 'Summit Financial's Deal for Fieldpoint Advisory Unit is Called Off Amid Advisor Exits' (2022
[19] CityWire – 'Merchant and Summit call off Fieldpoint Private deal' (2022

What happens when a deal goes bust in the 'Field'

Theme 2

The reaction:

The sale to Summit struck an immediate nerve amongst Fieldpoint advisors who were concerned over access to resources, model changes, and cultural fit as Fieldpoint advisors would migrate to and become independent contractors of Summit Financial. [20] Advisors quickly began to exit. Initially, Summit and Merchant were not unconcerned, with Summit CEO Stan Gregor saying: "There is no such thing as a one-size-fits-all business model...not everyone embraces independence and the responsibilities of running their own business. We wish all the best to the departing advisors." [21]

[20] AdvisorHub – 'Rockefeller Scoops up $6-Mln Fieldpoint Private Team in CT' (2022
[21] IBID

What happens when a deal goes bust in the 'Field'

Theme 2

Where the advisors ended up (abridged): [22] [23] [24]

Destination	Field point Team	Rough AUM	Location	Prior Employer	Other Details
Wells Fargo Advisors					
	Stephen C. Steinthal	N/A	Purchase, NY		
RCB Wealth Management					
	The Highlander Group	$284 mm	Stamford, CT	Morgan Stanley	Joined in in 2011, two more recent hires as well
	Cari B. Schnipper	$270 mm	Palm Beach Gardens, FL	Morgan Stanley	had managed $150 million in assets upon joining Field point in 2018
UBS Wealth Management					
	Taylor T. Gray (Analytic Asset Management)	$320 million	White Plains, NY	Independent	in May 2011 had sold to Field point his then eight-person, $320 million-asset RIA
Snowden Lane Partners					
	The Mile Creek Global Group	$350mm	New Haven, CT; Coral Gables, FL; and NYC	Brown Brothers Harriman & Co	
	The Heitner Group	N/A	Chcago, IL	Neuberger Berman	
	The Conway Group	N/A	NYC	Morgan Stanley Smith Barney.	
Rockefeller Capital Management					
	The Landmark Group	$1.2 Bn.	Stamford, CT	J.P. Morgan Securities	five-person group generating $6 million in annual revenue

[22] AdvisorHub – 'Wave of Fieldpoint Advisors Leave for RBC, UBS Amid Summit Deal' (2022
[23] Financial Advisor IQ – 'Snowden Lane Draws $350M Team from Fieldpoint' (2022
[24] AdvisorHub – 'Rockefeller Scoops up $6-Mln Fieldpoint Private Team in CT' (2022

What happens when a deal goes bust in the 'Field'

Theme 2

The breakup:

All in, roughly 10 senior advisors ultimately left Fieldpoint within 3 months after the deal was announced early January, who represented over $1.7 bn in assets

On April 5th, which was not even 90 days after the deal was announced on January 10th, Gregor publicly commented, "after an extensive due diligence process, a mutual decision was made to not move forward with the acquisition of Fieldpoint's advisory business...Summit and Fieldpoint Private will focus on further development of their strategic partnership, with Summit's advisors continuing to leverage the private banking capabilities offered by Fieldpoint." [25]

Although much took place in the public spotlight, not all of the details are known. Ultimately, only 13 senior wealth advisors remained on Fieldpoint's website by the deal dissolution announcement. [26]

Lessons Learned:

The proposed merger violated several key tenants of dealmaking, something any investment banking advisor could tell you (and it is not apparent or clear if either of the two parties utilized one).

When constructing a deal, besides quality advice, parties need to consider:

1. Size (e.g., AUM and staff)
2. Service model (UHNW clients, targeted niches, how many client meetings a month, multi-family office services, etc.)
3. Scope (what services are expected by clients with their fee vs what are paid for by clients)
4. Culture compatibility

[25] AdvisorHub – *'Summit Financial's Deal for Fieldpoint Advisory Unit is Called Off Amid Advisor Exits' (2022)*
[26] AdvisorHub – *'Rockefeller Scoops up $6-Mln Fieldpoint Private Team in CT' (2022)*

What happens when a deal goes bust in the 'Field'

Theme 2

At first glance it would appear, in terms of size, the relative minnow of Summit at $3.3 bn of AUM was swallowing the proverbial whale with Fieldpoint at $5.1 bn in AUM. Optically, this type of deal can prompt a combination of issues, including social implications derived from limited cultural compatibility but also integration risks. In this case, service model distinctions also appeared to be an issue as the 'boutique high service bank' setup described by advisors might be disrupted in joining Summit's platform.

There is precedent for closing without cultural compatibility, seen in the past in large cap M&A with firms like UBS-PaineWebber (2000) and Morgan Stanley-Smith Barney (2009). What's notable in comparison to this deal is how Fieldpoint's advisors' geographic fragmentation combined with their aptitude for making a move at some point prior to joining Fieldpoint gave them the confidence that they could move once again…and so many of them did!

An investment bank can help would-be acquirers think through such risks, and certainly provide protections like breakage fees and retention bonuses to mitigate departures and align incentives across all stakeholders.

Early bird gets the fast worm

Theme 3

RIA M&A volume has been significantly high over the past couple years; however, published numbers and deal discussions only go so far to detail the magnitude and pace present in the deal landscape.

Take, for example, two of the yearly fastest growing RIA lists.

Since Citywire published its 2021 '50 Growers Across America', seven have merged or sold to other RIAs. [27]

01 Keystone Wealth Partners (AZ) was bought by Creative Planning

02 The Mather Group (IL) was bought by PE firm Vistria

03 Summit Investment Advisory Services (MN) took a minority investment from Merchant

04 Apella Capital (CT) took a minority stake from WPCG and HGGC

05 Bay Point Wealth (MD) merged with Woodstone Financial

06 Focus Financial Partners bought Mosaic Family Wealth (MO)

07 Brightworth (GA) was bought from Emigrant by CI Financial

[27] CityWire – 'Fastest-growing RIAs get snapped up by acquirers' (2022)

Early bird gets the fast worm

Theme 3

Many of the acquired fastest growing RIAs noted above were actually only 'fastest growing' because of their inorganic growth strategy. Citywire's list also includes (among many others) The Colony Group (MA) who is owned by Focus Financial Partners (FFP) and EP Wealth (CA) who has outside investors including Berkshire and WPCG.

In short, as you can see below in more detail from FA Advisor's '2021 Fastest-Growing Firms' survey, a diversified group of RIA aggregators dominate either by being the fastest growing or by seemingly targeting firms with high organic growth rates:

RIA Name	Category	Recent M&A Activity Includes
Brookstone Capital Managemen+E+A3	TAMP	FormulaFolios (~3 bn, 2020)
AlphaCore Capital	Independent RIA	Acquired Private Client Group Rights from iCapital Network
Inspire Investing	Independent RIA	N/A
Cresset	Aggregator	Many, in May Meristem Family Wealth (5.4bn, 2022)
Pathstone	PE Backed: Lovell Minnick	Multiple, in March WaterOAck ($3 bn, 2022)
R|W Investment Management	Independent RIA	N/A
Modera Wealth Management	PE Backed: TRIA	Acquired Independence Advisors ($1.3 bn, 2020)
Diversified Lifelong Advisors	Independent RIA	Acquired RZ Wealth ($215mm, 2021)
Wealth Enhancement Group	PE Backed Aggregator:	One of the most prolific acquirers
Foundations Investment Advisors	TAMP/Service Provider	Brings advisors onto platform
CIBC Private Wealth, US	Bank	Result of CIBC acquisitions including Lowenhaupt Global Advisors ($1.8bn, 2019)
Cary Street Partners Investment Advisory	Wealth Management a	Several, including Waypoint Advisors ($215mm, 2020)
Signature Estate & Investment Advisor	Independent RIA	N/A
Axxcess Wealth Management	TAMP (looking for minority investor)	N/A
Lake Street Advisors	FFP	N/A
Aveo Capital Partners	Independent RIA	N/A
EP Wealth Advisors	PE backed Aggregator:	One of the most prolific acquirers
Titleist Asset Management	Independent RIA	None recent
Peavine Capital	Independent RIA	N/A
Bordeaux Wealth Advisors	FFP	N/A
Resource Management	Creative Planning	N/A
Abound Wealth Management	Independent RIA	N/A
Greenwich Wealth Management	Independent RIA	N/A

Early bird gets the fast worm

Theme 3

RIA Name	Category	Recent M&A Activity Includes
Fiducient Advisors	NFP backed	Result of 2020 merger between Fiduciary Investment Advisors and DiMeo Schneider
AE Wealth Management	Independent RIA/Platform (?)	N/A
Mirador Capital Partners	Independent RIA	N/A
Capital Wealth Planning	Investment Strategies	N/A
True North Advisors	Independent RIA	Acquired Western Research & Management ($200mm, 2019)
Annex Wealth Mangement	Independent RIA	N/A
Cabana Asset Management	CI acquired interest in parent company (2020)	Acquired Fund Architects ($120mm, 2019)
Creative Planning	Aggregator	One of the most prolific acquirers
Mission Wealth Managment	Independent RIA	Acquired Sea to Peak Financial Advisors ($90mm, 2021)
HoyleCohen	FFP	Acquired Stellar Capital Management ($400mm, 2020)
Mckinley Carter Wealth Services	Independent RIA	Acquired Allegiance Financial Advisors ($78mm, 2022)
Quadrant Private Wealth	FFP	N/A
Robertson Stephens Wealth Management	Independent RIA	Has made a number of acquisitions including Epoch Consulting Group ($850mm, 2021)
Lido Advisors	PE Backed: Charlesbank Capital Partners	Acquired Enterprise Trust & Investment Company ($800mm, 2022)
One Capital Management	CI Financial	N/A
Frazier Financial Advisors	Independent RIA	N/A
Rollins Financial	FFP	N/A
Covington Capital Management	Independent RIA	N/A
Ritholtz Wealth Management	Independent RIA	N/A
Ensemble Capital Management	Independent RIA	N/A
PDS Planning	Independent RIA	N/A
Abacus Wealth Partners	Independent RIA	Acquired Robasciotti & Philipson ($130mm, 2021)
AJ Wealth	Independent RIA	N/A
Paragon Capital Management	Independent RIA	N/A
Miracle Mile Advisors	PE Backed: Merchant, looking for new backer	Acquired Castle Asset Management ($375mm, 2021)
Regatta Capital Group	Iindependent RIA	N/A

Are new PE players late to the party?

Theme 4

For all of the various predictions about where the economy is going over the next year, underscored by a rising rate environment and increased investment volatility in the public and private sector, private equity investors, both new and old, continue to express a high level of enthusiasm for the wealth management sector as the second quarter saw numerous M&A announcements from private equity firms, including some firms doubling down on the space with multiple wealth management portfolio company investments.

One of the biggest announcements in the second quarter was Football Hall of Famer Steve Young announcing that his private equity firm, HGGC, raised $300mm in a special private equity vehicle designed to invest minority and majority stakes in wealth management firms. This new investment vehicle, known as Aspire Holdings, is expected to make 3-5 large investments that will complement HGGC's existing wealth management portfolio, which includes $4bn Warren Averett Asset Management, $6.3bn Merit Financial Advisors, and $2.7bn Apella Capital.[28]

Serial wealth management acquirer Cerity Partners is once again rumored to be on the block. After news leaked out that private equity firm Lightyear Capital (who bought into Cerity in January 2018 and has previously invested in firms such as Wealth Enhancement Group and Advisor Group) was seeking an exit, a recapitalization was announced by Genstar, who also backs aggregator firm Mercer Global Advisors, wealth tech firm Orion, and broker dealer conglomerate Cetera. Since the recapitalization, Cerity has since made an additional acquisition in FJY Financial.

Lightyear Capital remains committed to the space with their majority investment in Allworth Financial (shared with Ontario Teachers' Pension Plan Board). [29]

In a different flavor of private equity investment, Merchant backed Private Advisor Group (an LPL affiliated OSJ with over $30bn in assets and 700 advisors) announced a new capital program targeting 10-20% of advisors' revenue via PAG Growth Partners. [30] Since the announcement PAG finalized the acquisition of Investors Financial Group (both are LPL affiliates), which added 28 advisors and $1.86 billion in AUM to the OSJ.

[28] CityWire – 'PE shop HGGC ready to spend $300m on RIAs' (2022)
[29] CityWire – 'Lightyear Capital pursuing new investor in $45bn Cerity Partners -sources' (2022)
[30] CityWire – 'Merchant-backed Private Advisor Group launches RIA revenue sharing program' (2022)

Are new PE players late to the party?

Theme 4

Additionally, Summit Partners backed Advisor Investments (bought from Emigrant in 2021) announced its new CEO, ex-Edelman executive Mario Ramos. Ramos outlined his vision with the following: “Adviser Investments is on course to become a top 10 independent fiduciary, and I’m excited to lead the organization as we embark on a period of rapid expansion” and concurrently completed its largest acquisition (and its first in five years) Polaris Wealth, a $2bn RIA in California.[31] In a similar vein, Savant Wealth Management, an aggregator with over $14 billion in AUM and who is backed by Kelso & Co., announced several new hires, including Jason English as Director of Growth (formerly of Edelman Financial Engines), and a plans to grow its assets by 500% (not a typo) over the next five years.[32]

The contrarian story of the quarter, Snowden Lane Partners, which was widely marketed by investment bank Ardea Partners, was reported to be for sale by its private equity backer Estancia Capital Partners for several months until the deal was “hung”. In a dramatic turn of events after several months of marketing, it was announced that the sale process was abandoned and instead the firm received a $30mm debt line from Japanese financial conglomerate Orix Corporation (which was already on top of their existing $20mm term loan). While many factors may have resulted in the halting of the sale process, the inability of a major wealth management firm to find a buyer is an unusual fact pattern in these times. This is a theme worth monitoring going forward as we see if others experience the same resistance in the future.[33]

[31] CityWire – ‘Adviser Investments names ex-Edelman CFO as CEO’ (2022)
[32] WealthManagement.com – ‘Savant Starts With People in Pursuit of Ambitious Growth Plan’ (2022)
[33] CityWire – ‘$9bn Snowden Lane Partners stops sale process, adds $30m in debt’ (2022)

Volatility and Valuation Agnostic

Theme 5

Market volatility and firm valuations are top of mind to buyers and sellers, and we will address both together as they are inextricably linked.

Sellers:

Over the last ten plus years, RIAs have experienced minimal waves rocking the proverbial boat. All this changed, first with Covid, and now with the new rising rate environment combined with inflation reaching levels not seen since the 1980s.

With the uncertainty around upcoming elections, inflation, and geopolitical tensions not looking to go away anytime soon, most people are now focusing on minimizing downside risk rather than just managing volatility. By some, volatility can be seen as an opportunity to take advantage of market dislocations.

So, is market volatility good or bad for M&A and firm valuations? RIA owners may see a volatile market as a potential downside risk that can impact everything from their client's portfolios to the value of their own firm. In the effort to minimize the downside risk, cutting expenses out of fear to improve profitability is not a sustainable strategy to improve valuation over the long run. Instead, owners should use this period as an opportunity to get closer with clients, attract new clients and identify ways to target potential changes in market dynamics to create new opportunities.

When it comes to valuation, a consistent track record of generating strong organic growth, either from attracting new clients or expanding the wallet share with existing clients, creates higher valuations than firms that have grown by the same amount primarily due to market appreciation. Higher organic growth leads to higher valuations more than anything else.

That is not to say that other areas of firm valuation drivers are not important:

Volatility and Valuation Agnostic

Theme 5

Maintaining strong cost discipline

RIAs that throw money at problems over and over again are likely not being efficient with the resources they have and lack the efficient scale acquiring firms look for.

Create and maintain a strong platform/base to build from

Identify the problem first – whether it's outdated technology, an underperforming employee or an outdated client experience think of the right way to solve the problem. One consideration may be to take advantage of synthetic scale by outsourcing to a third-party wealth technology platform to alleviate your issues in one shot.

Ensure headcount is justified

Ask yourself this: how much AUM can a client service associate handle before you need to hire someone new? If you don't know the answer, now might be a good time to find out.

Our unsolicited advice: focus on what you can influence, your firm's organic growth.

Buyers:

For buyers, market volatility, a rising rate environment, and a potential ceiling on valuations being reached should result in a more prudent capitalization strategy to professionalize their business and consider M&A; however, some firms continue to deviate from this expectation:

> Sanctuary Wealth signed an agreement with New York-based credit manager Kennedy Lewis Investment Management for a $175mm convertible note financing deal that will help support its ongoing growth efforts.[34]

[34] CityWire – 'Sanctuary Wealth secures $175m financing deal with NYC credit firm' (2022)'

Volatility and Valuation Agnostic

Theme 5

> Cambridge Savings Bank provided Modera Wealth Management with a $26mm financing package to power M&A growth, including a $9 million loan for buyouts [35]

> Hightower, which is controlled by private equity firm Thomas H. Lee Partners, issued $300mm in unsecured bonds in April 2021 via a private offering. With a 6.75% coupon, the bonds traded above par until early March and were most recently priced at 90.25. Hightower had roughly $1.4bn in debt – a combination of term loans, unsecured bonds, and a revolving credit facility on its balance sheet at the end of 2021, according to Moody's. [36]

The above doesn't include other private equity entrants and PE backed buyers who are looking to get more bullish like Adviser Investments and Savant, who were mentioned earlier. As explored in our market summary, there is no absolute consensus that valuations have topped universally, nor that the conventional wisdom of higher rates should equal a pullback in debt fueled M&A demand.

What is clear from buyers and sellers alike, despite an increase in volatility, rates, and the corresponding risk to valuation, is that organic growth will always yield a premium valuation regardless market conditions and there will always be a buyer for a quality seller no matter what phase we are in the market.

[35] Business Wire– 'Cambridge Savings Bank Provides Modera Wealth Management with $26 Million Financing Package to Power M&A Growth, Build Out Employee Equity Strategy' (2022)
[36] CityWire– 'Focus CEO Adolf takes aim at Hightower and CI Financial' (2022)

Q2 M&A Market Color

2022 M&A Activity: A Halftime Read

After a record year in terms of total M&A deals in 2021, 2022 continued the high deal volume, despite worries about market headwinds resulting from 'lost momentum' and valuations potentially finally hitting their ceiling. This 'loss of momentum' would seem more a function of the absurdly high deal numbers we have become accustomed to as the 71 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. June 2022 alone is the second highest month by M&A transactions ever after January 2021!

In the second quarter of 2022, of the 71 total RIA transactions, aggregators were the most active announcing 40 (49 in Q1), with private equity 6 (11 in Q1) and RIAs 19 (9 in Q4) well behind (brokers, platform companies, and insurance companies made up the remainder). Notably, in terms of AUM (in Q2), despite vastly fewer overall deals private equity buyers acquired $29.0 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 $31.0 billion by aggregators and $14.7 billion by RIA buyers. The total of $203.6 billion AUM and median deal size of $1.0 bn result in a mixed increase/decrease over Q1 2022's total and average AUM.

Q2 2022 Top 10 Deal Summary

Of the top deals in Q2 2022, the most interesting takeaway, other than CI Financial's relatively quiet showing with just one deal announced and the return of Focus Financial being the dominant M&A player (at least for a quarter), was the diversity of buyers in the top 10. Usually dominated by private equity and a select few aggregators, in Q2 we saw two insurance companies, a B/D, and an RIA take spots in the top 10. Also highly interesting, is that despite all the concerns about valuation levels hitting their zenith and concerns about future RIA M&A momentum, three of the top transactions were aggregators recapitalizing, presumably to get further dry powder for future investments. Of the top ten transactions (by AUM), an unprecedented 7 fall all or partially into the capital rationale, a departure from past quarters, with scale historically being the most common with just one overall in Q2. Expansion, capabilities, and succession all featured this quarter.

The new diversity of buyers and sellers will be key to watch, though we predict the trend highlighted in prior quarters (continued increased emphasis on capital) continuing to be 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 also heavily feature scale as a motivator as larger acquirors 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
Q2 Top 10 Deals Announced

Buyer	Seller	Buyer Type	Seller AUM (billions)	Announcement Date	Transaction Rationale
MassMutual	Kudu	Insurance	65.0	5/26/2022	Capital
Genstar Capital	Cerity Partners	PE	45.0	6/8/2022	Capital
Callodine Group	Manning & Napier	PE	20.0	11-Apr	Capital
The Vistria Group	Mather Group	PE	8.0	4/7/2022	Capital and Succession
Emigrant Partners	Koda Capital	PE	7.0	5/11/2022	Capital
Cresset	Meristem Family Wealth	Aggregator	5.4	5/26/2022	Expansion
Focus Financial Partners	Octogone Holding SA	Aggregator	5.3	4/29/2022	Capital and Expansion
NFP Retirement	Newport Private Wealth	Insurance	4.3	6/30/2022	Expansion and Capabilities
Alera Group	Wharton Business Group	Broker	3.4	6/8/2022	Capital and Capabilities
Baird, Kurtz & Dobson	Dixon Hughes Goodman Wealth Advisors LLC	RIA	2.2	6/3/2022	Scale

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

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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Get In Touch

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

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