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FINANCIAL PARTNERS

Inside the Deal M&A Newsletter

Q3 2022

A Brief Note from the Team

Welcome to the closing stretch of 2022 and the seventh 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 seventh issue, we reflect on the third quarter of 2022. 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

Market Review

As we prepare to enter the home stretch of 2022, we believe it is safe to say from a pure number's standpoint, the RIA market's worries regarding valuation multiples crashing and deal volume cratering has not panned out in the slightest as of the close of the 3rd quarter. Our start of year 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%!), and Q3 2022 only saw a slight drop-off with 65 announced deals versus 71 in 2021. For context, 65 deals would have been a record any quarter before Q1 2021.

So, as we look to Q4, the primary considerations regarding the general health of the M&A market are threefold:

1. How will sellers and buyers adapt to the first extended market correction in a decade

2. How will the Fed's sustained rate increases affect the serial buyers who have turbocharged the RIA M&A market?

3. How steep will the drop off in Q4 M&A deal volume be from last year's tax change fueled record numbers?

The answer to these three questions will not be fully known for months due to the lag time between deal conversations that are entered into today and when they actually get consummated. Our hypothesis given current market activity is that although Q4 2022 will see a drop off in M&A deal volume relative to the idiosyncratic factor of the proposed tax law changes that created a natural Q4 2021 tailwind, the overall health of the market will remain robust.

This resilience of the M&A market is primarily due to the story remaining the same: the long-term drivers of outsized RIA deal volume is driven by advisor succession needs over the long term, the increasing RIA scale, breadth and depth needed to compete, and new private equity backed buyers entering the market to drive growth through consolidation.

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

Market Review *Continued*

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

> A bunch of pundits were saying 2022 was going to be a slow year for M&A, I think they were all wrong.
>
> *– Rudy Adolf, CEO, Focus Financial Partners*

Our long-term view continues to be that while deal volume will level off, it will not decrease. There will continue to be a battle between the sellers and buyers, which for the moment appears to be at a draw in terms of multiples...but with a little near-term uncertainty:

> A 15% market decline should reduce a firm's valuation by 46%—unless internal adjustments can be made, although the dramatic current market conditions have caused only around 10% of firms to pause M&A transactions at any point in the process. Even during the financial crisis, industry valuations dropped by almost half, yet less than 2% went out of business.[1]
>
> *– Dan Seivert, Echelon*

[1] Wealthmanagement.com – 'Seivert: RIAs Need to Make 'Internal Adjustments' to Maintain Value in Down Market' (2022)

Market Review *Continued*

The long-term trends described on the previous page continue unabated according to Cerulli, with 37% of financial advisors, representing $10.4 trillion in client assets, being expected to retire. Of these:

14.4%
plan to reassign clients

13.8%
Intend to seek an external sale

19.1%
plan to pass on the business to a junior advisor or family member

26.6%
to an existing advisor in the same practice

However, 25% of advisors retiring within the next decade said they are still unsure of their succession plans.[2]

Wirehouses continue to lose market share in both assets and headcount:

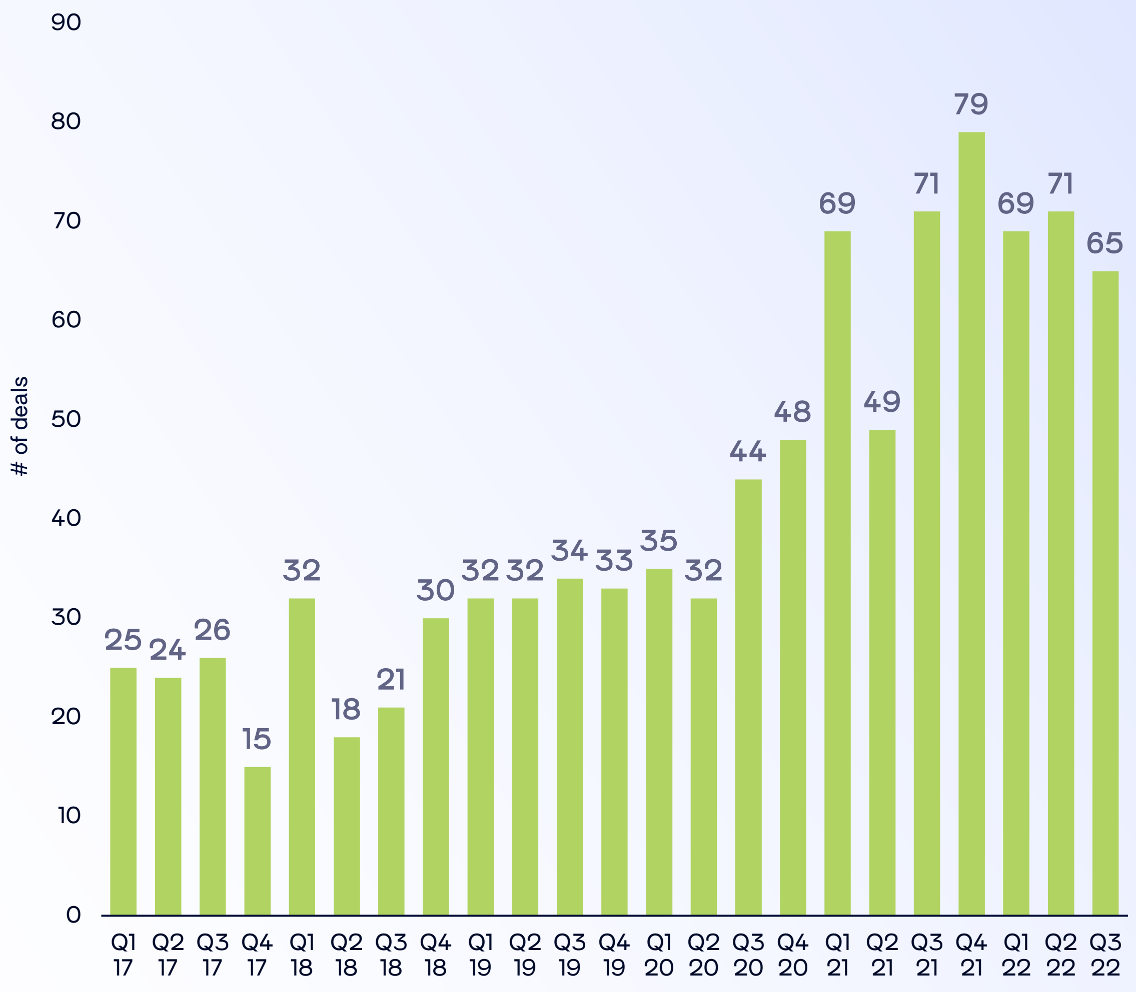
"Merrill Lynch's Experienced Broker Count Near 11,000...That count is down around 10% from three years ago when brokers at the firm said internal rankings showed 12,290. Merrill last reported 14,690 advisors in 2019, but that included thousands of trainees and other registered roles." [3]

With the long-term trends remaining intact and serial acquirers continuing to buy with some uncertainty, we expect a strong finish to 2022.

[2] Financial Advisor IQ – 'A Quarter of FAs Retiring Within Decade in Limbo About Succession' (2022)

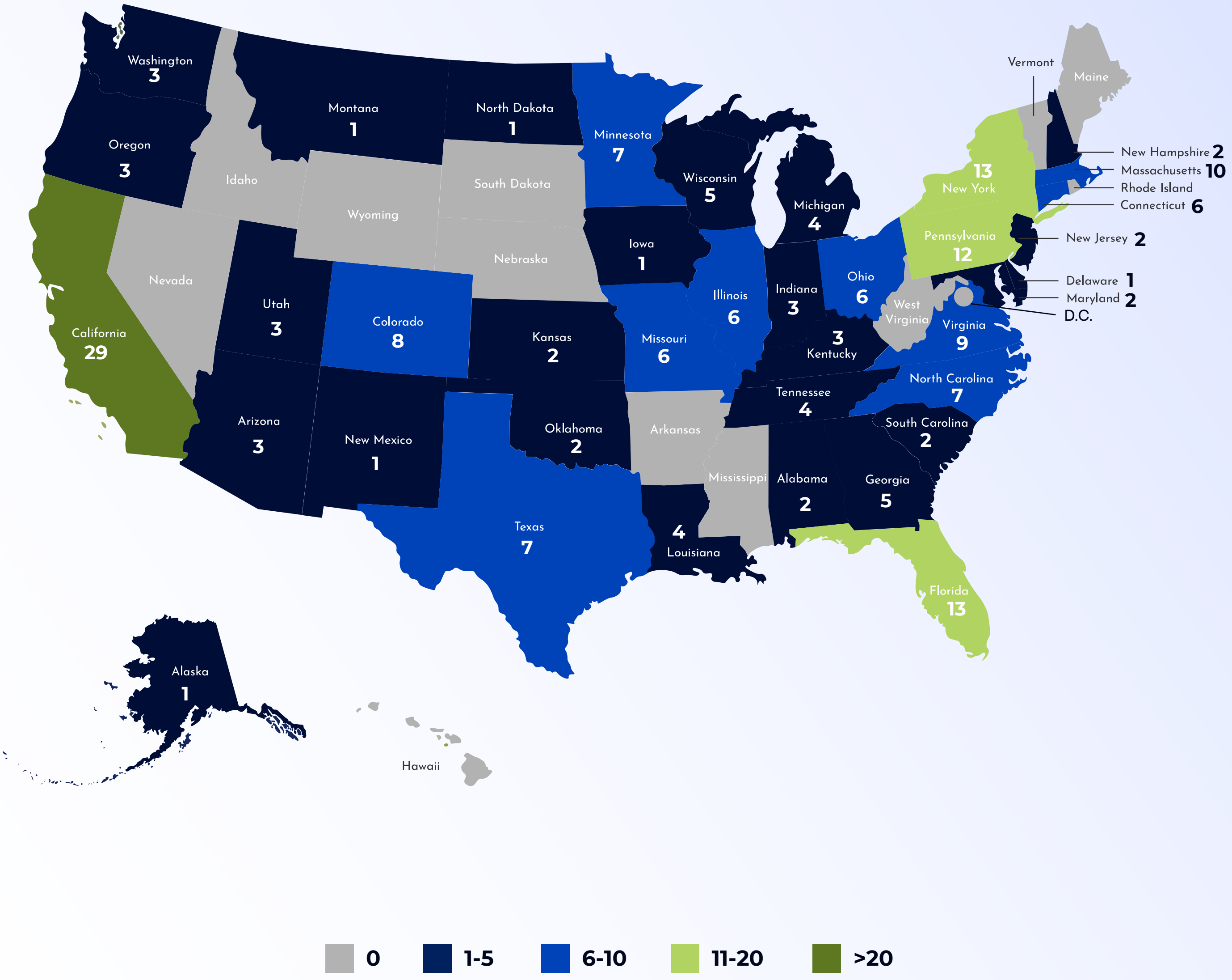
[3] AdvisorHub – 'Merrill Lynch's Experienced Broker Count Near 11,000–Sources' (2022)

RIA M&A Deal Volume Q3 2022



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

YTD 2022 National Deal Data Breakdown



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

Q3 2022 Key Themes

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

1. The Aggregator Spotlight
2. Show Me The Money? Show Me The Clients
3. What Makes a Good Deal?
4. Deal Structure Changes
5. Un-Independent RIA Legal Barriers
6. Big M&A Breakups Continue
7. RIAs Eating Their Own Cooking

Aggregator Spotlight

To truly get the pulse of the M&A market, it is important to shine a light on the largest buyers in the industry: serial acquirers who account for over 50% of the buyer market currently. The current pulse of this market segment reveals that despite the dramatic shift in market conditions through the first 9-months of the year, serial acquirers have been historically active despite, or perhaps because of, the many market headwinds and uncertainty. In particular, Creative Planning (1 firm acquired in Q3 and 12 YTD) and Mercer Global Advisors (4 firms acquired in Q3 and 14 YTD) have been aggressive with their acquisition strategy in 2022.[4]

Focus Financial Partners

Focus has remained especially active, consummating 6 deals in the 3rd quarter. A key aspect to watch for Focus is their leverage level. According to Mercer Capital, "all of Focus' ~$2.5 billion in borrowings are tied to either LIBOR or SOFR at spreads ranging from 175 to 250 bps (although Focus has effectively fixed $850 million of its borrowings via hedges at 262 bps). Focus' net leverage ratio was 3.90x on June 30 (relative to a target range of 3.5x-4.5x), and it's Q2 interest expense was $19.9 million. The earnings deck includes a sensitivity analysis that indicates that Focus' pre-tax interest expense would increase by $11.9 million if LIBOR/SOFR were 300 basis points higher."[5] Though given many of the other serial acquirers in the space have significant relative leverage as well, this might not be as relatively worrying for Focus specifically while certainly being something to continue to monitor industry wide.

Rudy Adolf, Focus's CEO, believes that the deal multiples are beginning to soften as the PE backed serial acquirers and professionalized buyers have taken a slight step back. He describes the competition as stabilizing after an intense 2021. "What we have seen last year, I may have used the word 'drunken sailors,' they are gone...we don't see any activity from some of the players who just dramatically overpaid for assets that clearly were not worth it in our estimation" Rudy said on an analyst call in August.[6]

Focus continues to have a 20% growth target and a leverage target of 3.5x to 4.5x net leverage.

[4] Citywire – 'Unmoved by markets, RIA M&A sets midpoint record' (2022)

[5] Mercer Capital – 'Five Takeaways for RIAs From Focus Financial's Earnings Release' (2022)

[6] RIABiz – 'With RIA valuations ticking down and successions ticking up, Focus Financial deep sixes 'drunken sailor' pause, forgoes buyback plan and adds a CEO' (2022)

Aggregator Spotlight *Continued*

Hightower Advisors

Hightower has reemerged from a period of relative quiet (no deal announcements for five consecutive months), completing 2 deals in the 3rd quarter and 5 year to date.

Hightower has begun openly signaling that it intends to return to being a highly acquisitive member of the buyer market going forward. Hightower raised over $500mm in debt by the end of 2021, which led S&P Global Ratings to estimate Hightower's net leverage ratio to be 10x-12x its adjusted EBITDA, though also projecting that it will fall to below 10x in the next year or two.[7]

According to CEO Bob Oros, "We continue to feel really good about the volume and quality of deals that are out there…we are not taking our foot off the gas, nor are we pressing the gas any harder…the reason we have debt facilities available is because we expect to use them. We expect to use them to fuel accretive growth to the company. With the number of deals committed that we have moving to close, we will take advantage of that…I continue to feel very good about our balance sheet. It's healthy. It's flexible. And we're very mindful of what levers we use at what time."[8]

[7] Citywire – "Real resiliency': Hightower CEO Bob Oros talks strategy' (2022)

[8] IBID

Aggregator Spotlight *Continued*

Beacon Pointe

Matt Cooper, president of KKR-backed Beacon Pointe, says his firm has used this period to adjust and formulate a new plan of attack for the RIA market. “Even our numbers quarter-over-quarter have adjusted down from Q1 2022, it’s basically restructuring deals to make sure we’re pricing things correctly, and also building a structure so that if the markets come back or our new partner grows that office substantially after joining us, they can recapture that value that got subdued because of the market.” Beacon’s new instrument/offering is a 1-1.5 year so called ‘recovery’ earnout priced at 1-1.5x EBITDA.[9]

Cooper also commented on a number of industry factors which included the absence from the market of a few of the usual notable buyers, the average deal size decreasing, and that Beacon remained on target for its year end deal count, while also hinting that their best years always come 1-2 years after major market movements.[10]

[9] Citywire – ‘Beacon Pointe buys $600m RIA; is shifting deal structures amid market decline’ (2022)

[10] IBID

Aggregator Spotlight *Continued*

Mercer Global Advisors

Mercer maintained its target of adding $10 billion in AUM through roughly 14 deals this year, irrespective of current market conditions.

Dave Barton, Head of M&A, stated "This will be our best haul ever in terms of number of deals done and aggregate purchased AUM" and that RIAs "fear a gathering storm is headed our way. They are seeking to take advantage of the current seller's market and want to drink the wine before it turns".[11] He also believes we will see a quieter Q4 to close out the year due to the lower revenue numbers for sellers.

Mercer announced a new deal structure where they tripled "acquired firms' net new deposits for the first year or two post-close and will retroactively ratchet up purchase prices for targets that can maintain a certain revenue compound annual growth rate (CAGR) after being acquired so as to incent sellers to not sit on the sidelines and instead come to market."[12]

CI Financial

CI Financial has been oddly quiet with only two deals thus far in 2022, with the last being Eaton Vance WaterOak back in March. Currently its sole focus appears to be its planned IPO launch and integration of the collection of firms CI acquired throughout its prolific spree throughout 2020 and 2021.[13]

Also, relevant and notable for CI is its current leverage levels, which had increased from 3.0x at the end of Q1 to 3.5x at the end Q2, a sharp rise from 1.9x before its deal spree.[14]

[11] Citywire – 'Mercer looks to add $10bn in AUM through acquisitions this year' (2022)

[12] IBID

[13] Citywire – 'CI grilled over RIA spinoff plans and share buybacks' (2022)

[14] IBID

Aggregator Spotlight *Continued*

Others

A few items of note from buyers other than the serial acquirers explored above:

Broker-Dealers

Advisor Group has recently entered into the RIA market in a big way with a minority investment into Signature Estate & Investment Advisors ($16 bn RIA located in Los Angeles, CA). Advisor Group CEO Jamie Price stated that this would be the first of many investments in RIAs. This comes amid many broker dealers attempting to make the transition, even if prima facie, that they are more like RIAs, possibly for the higher multiples associated.[15]

Unlike other independent broker dealers, Advisor Group is well funded and strongly backed, with a new $500 million facility at an interest rate of 8.625% and complemented by private equity firm Reverence Capital Partners.[16]

Private equity

Private equity continues its flex its muscle and interest in the space. Notably, unsuccessful bids for Cerity Partners (won by Genstar Capital) included Stone Point, who previously backed Focus Financial and Kestra Holdings, and The Carlyle Group who does not currently have a direct investment in the U.S. RIA space yet (though does have a stake in Galway Holdings who owns a 70% stake in MAI alongside Wealth Partners Capital Group and a majority ownership in U.K. based Hurst Point Group).[17, 18]

Insurance and Retirement

Insurance brokerage Alera bought RIA Wharton Business Group ($2.4 bn RIA in Malvern, PA), and retirement rollup OneDigital acquired TimeScale Financial ($802mm RIA in Danvers, MA).[19]

[15] Wealthmanagement.com – 'What Kind of Acquiror Will Advisor Group Be?' (2022)

[16] Wealthmanagement.com – 'Advisor Group Raises $500M in Debt for B/D Acquisitions' (2022)

[17] Citywire – 'Carlyle made unsuccessful bid on Cerity Partners -sources' (2022)

[18] Citywire – 'Stone Point unsuccessfully bid on Cerity Partners stake -sources' (2022)

[19] Citywire – 'Unmoved by markets, RIA M&A sets midpoint record' (2022)

Show Me The Money? Show Me The Clients

When buyers and sellers have ongoing discussions, the typical focus of negotiations are centered on transaction multiples and possible synergies that would lead to additional growth. However, the actual transition of clients is ultimately the life blood of bringing a deal to the altar and getting each party to say yes! This distinction can get lost in negotiations, when the focus can shift quickly to valuation, earnouts, and consideration mix and if transition is not seriously addressed and considered during the process, the deal could potentially result in failure.

When it comes to M&A, the successful absorption and integration of a seller's clients into a new firm is paramount and should not go underestimated. Given that, the potential upside and payoff for all involved must be significant. The deal must solve on some level for frustrations and limitations (even if not fully realized) for delivering a better client experience. The net benefits of a deal could be:[20]

- Better technical interface and/or reporting
- More fulsome investment opportunities
- Peace of mind concerning advisor succession
- Superior and improved pricing or overall fee reduction
- Increased comprehensive client support

Without satisfying any one of the above-or even making any one of those five categories less attractive than what the RIA is delivering today, the deal has the potential to disrupt and damage the 'assets' and it will remain to be seen how much 'product' falls off the metaphorical shelves. A newly combined firm needs to allow new clients to do due diligence themselves, understand the strategic rationale of the deal and principals of the firm need to help clients with any unanticipated changes that occur. The brand name of the acquirer is not a sufficient 'selling factor' alone, strong client relationships are built by advisors, not the firms they represent, and that is what is key to remember and consider for any deal. [21, 22]

[20] Wealthmanagement.com – 'When Top Advisors Leave Their Firms?' (2022)

[21] IBID

[22] Wealthmanagement.com – 'What to Do When Your Plan's Record-Keeper or Advisor Is Acquired' (2022)

Show Me The Money? Show Me The Clients *Continued*

To be fair though, the increased size, scale, and capabilities often resulting from an M&A transaction should at the minimum decrease the headaches and time suck for the client's current advisor. This should free up time for advisors to more than adequately service their existing clients to make them happy.

This concept has the potential to change in the event of a succession-related transaction. Key steps in this event include:

- Identifying what a successor needs to learn and what the requisite overall skillset looks like
- Determining how long it will take for the transition to occur
- Identify deliverables and meetings to involve the successor in and begin to handoff to the new designated point person
- Consistent check in and reality check to see what's working and correct what is not[23]

[23] Financial Advisor IQ – 'Successions Must 'Look Like Synchronized Swimming" (2022)

What Makes a Good Deal?

From a micro perspective, a seamless transition of client assets and relationships is core to a successful deal, but from a macro perspective ‘what makes a good deal’?

M&A research shows there is a 50-50 chance that companies pursuing large M&A deals will outperform industry peers, so the odds are mixed against a successful outcome.[24] But if that’s the case, why are so many firms successful in doing deals?

Acquirers in the RIA space can improve their odds of success by following the below five rules: start small, stick to your business plan, culture is key, pursue actual not theorized growth, and integration is everything.

1

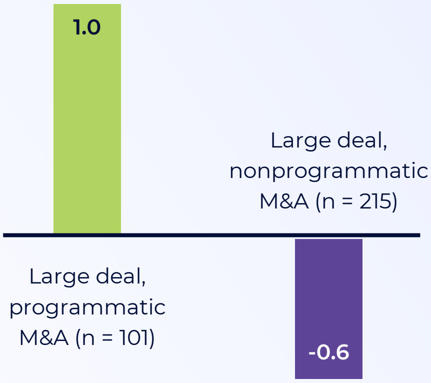
Engage in smaller M&A initially-aim small miss small. Figure out and hone the execution and integration plan before attempting something larger. Use a small deal to identify holes and blind spots before wading into deeper waters.

2

When engaging in larger M&A, stick to deals which fit your firm’s general business plan and characteristics. A mass affluent RIA should avoid buying a multi-family office or ultra-high net worth one person shop. A fee only RIA centered in NYC should think twice before bidding on a brokerage in Montana. Stick with programmatic deals versus nonprogrammatic ones.

Companies using a large-deal approach to M&A and improve their performance by also engaging in programmatic M&A.

Global 2,000[1] median excess total shareholder returns by program type, Jan 2010-Dec 2019, %



(1)Companies that were among the top 2,000 companies by market cap (>$2 billion) on December 31, 2009, and were still trading as of December 31, 2019. Excludes companies headquartered in Africa and Latin America.
Source: Deal Patterns 2019; S&P Global; Corporate Performance Analytics by McKinsey.

[24] McKinsey & Company – ‘The flip side of large M&A deals” (2022)

Source: McKinsey & Company – ‘The flip side of large M&A deals” (2022)

What Makes a Good Deal?

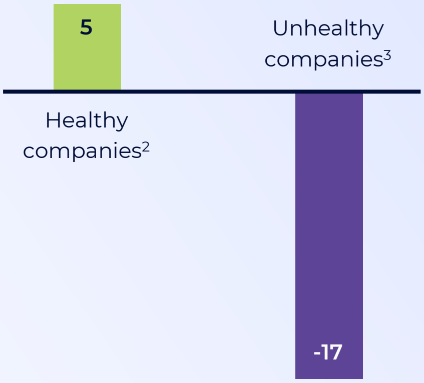
Continued

3

In keeping with the latter example-keep in mind culture, the most important decider of a deal's success. If firms are not culturally compatible, the deal will VERY rarely be successful and likely destroy value.

Acquirers with healthy cultures are more likely to create value with their deals.

Median change in excess total shareholder returns 2 years post-close, [1] %



[1] Measured using excess total shareholder returns compared with their industry peers, to isolate the effects measured from broader industry trends. Based on McKinsey's Organizational Health Index (OHI) data collected over more than 15 years from more than 1,000 companies, across 100 countries.
[2] Those companies with OHI scores in the top two quartiles of the data set.
[3] Thopse companies with bottom two quartiles of the data set.
Source: McKinsey analysis of deal databaseOHI scores in the and OHI databases.

4

Do not focus too much on future potential growth and potential synergies-revenue now is true immediate bottom line revenue growth. According to McKinsey "the outperformers in our research created most of the value from large deals through increased revenues. Indeed, when we segmented the "large deal" companies in our Global 2,000 research base into top- and bottom-half performers, we saw marked differences between these cohorts' top-line growth and contributions to shareholder return. The top-half performers used large deals to grow revenues but also saw improved margins, multiples, and dividend changes. The bottom-half companies saw no sales growth, despite their large acquisitions, and saw their margins and multiples deteriorate."[25]

[25] McKinsey & Company – 'The flip side of large M&A deals" (2022)

Source: McKinsey & Company – 'The flip side of large M&A deals" (2022)

What Makes a Good Deal?

Continued

5

Focus on integration and cost reduction. The most successful deals are those who focus on speedily and effectively integrating the sellers into their cost structure and realize the planned synergies theorized pre-transaction. Part of this success is being realistic in the pre-transaction negotiations, but more important is having seasoned and focused management who can execute on plans efficiently. Unsuccessful deals tend to not be able to integrate fully or effectively and let costs balloon.[26]

[26] McKinsey & Company – 'The flip side of large M&A deals" (2022)

Deal Structure Changes

With both the equity and fixed income markets experiencing their first sustained correction in over a decade, deal structure of prior and current M&A transactions has come under some scrutiny.

Historically, many valuation multiples included several components including these three categories:[27]

Retention

A target AUM retention percentage is established at deal closing, often over 90%. A deal term like this removes buyer uncertainty at what exactly they are buying- while also presenting an easy target for sellers to hit as they only need to focus on keeping their business together through the initial period of the transition. This provision is particularly key for any succession orientated transaction.

Growth Earnout

This provision is used to align incentives between buyers and sellers. The buyer wants to promote and incentivize increased revenue, AUM, and/or EBOC post transaction and the seller wants to be paid for increased value created by delivering growth.

Cost Structure Adjustment

A less common contingent payment is the follow through on agreed upon restructuring or cost reduction targets. For buyers this can equal the realization of synergies from removal of duplicative expense or redundant roles within the newly combined entity and incentivizing the seller's compliance in this pursuit after close.

So, how have these deals been faring with the worst downturn since 1970, something which has impacted AUM and revenue across the board? It is the above-described contingent payment levers which appear to have buoyed buyers, turning deals which would look like overpayment in today's market to those which remain solid. We see evidence of this in the public acquirer's balance sheets: CI Financial, Focus Financial Partners, and Silvercrest Asset Management.

[27] Mercer Capital – 'Bear Markets Cost RIA Sellers, But Boost Buyers" (2022)

Deal Structure Changes

Continued

All three acquirers recognized sizable write-downs in Q2 due to contingent payments from deals in prior quarters:

- CI Financial wrote down $75 million of $295 million total contingent payment – worth 25% of their EBITDA

- Focus Financial saw over half of its $81.5 million net income come from decreased contingent payments, with Silvercrest having a similar experience.[28]

Albeit a small sample, we believe these three to be largely representative of the larger RIA market and displays the good news/bad news for buyers. This is that although their past acquisitions are now worth less, buyers now have more cash to spend on newer deals now than they would have thought. For sellers it is only unwelcome news, as the high deal multiples they largely signed on for are now considerably more pedestrian.

So, what does this mean for deals now and deal structure going forward?

Sellers and buyers are both making real, substantial changes to deal structures amid market uncertainty.

According to some experts, while sellers have historically received transaction consideration of up to 80-90% at closing, in light of current billing levels being down so are these payment percentages. Some sellers seem attracted to a lower upfront payment and having a contingent payment being pushed out to 2-4 years to provide for some potential normalization of the market.

Buyers have adjusted their approach as well:

> Beacon Pointe president Matt Cooper said that Beacon Pointe has taken to writing in a 12-month or 18-month recovery earnout for sellers at an extra turn of 1x or 1.5x EBITDA...Beacon Pointe has announced four acquisitions this year, just one of which was originated in 2022.[30]

[28] Mercer Capital – 'Bear Markets Cost RIA Sellers, But Boost Buyers" (2022)

[29] Citywire – 'Why RIA deal structures are changing in 2022' (2022)

[30] IBID

Deal Structure Changes

Continued

> Dave Barton, Head of M&A at Mercer Advisors and one of the industry's top acquirers in 2022:
>
> "What we're doing is we're paying sellers $3 for every $1 in net new deposits. Every deal is different, so that could be for a year post-close, or it could be for two years. That's something that we started doing immediately prior to the market drop because we were sensing one was coming. We wanted to incent sellers to not sit on the sidelines and instead come to market."[31]
>
> This is in additional to an added CAGR based growth incentive.

Creative Planning and Mariner Wealth Advisors, however, have vocally stated they are not adjusting their structure for current market forces; the latter sticking with established growth incentives only.

It is too soon to truly tell whether these adjustments in deal structure amid current market forces and revenue uncertainty are here to stay or just an idiosyncratic adjustment. Given the usual 3–6-month time lag in deal announcements, it will be something to monitor closely in Q4 2022 and Q1 2023 to see if this becomes a long-term headwind for new deals in market.

[31] Citywire – 'Why RIA deal structures are changing in 2022' (2022)

Un-Independent RIA Legal Barriers

One of the many motivations to move a business into independence is to access more choice and autonomy. However, in recent months we have seen some large RIAs follow a very similar legal strategy to wirehouses when certain advisors left for another firm. This has resulted in a spike in the number of lawsuits filed against departing advisors that allegedly signed expansive non-competes. Given the maturation of the RIA M&A market, we would expect large firms who are signing up advisors to continue an aggressive approach towards 'their' advisors who leave.

Example 1

In January 2021 Mercer Advisors bought Atlanta Financial, employer of Charles Crowley. Charles post-acquisition decided to move elsewhere by May of 2021, accepting an offer with Veracity Capital (a $500mm AUM firm in Atlanta). Both sides are now in court over what Mercer claims is that Charles "emailed a Mercer client list to his personal e-mail address and transferred Confidential Information from a Mercer computer to two non-Mercer USB drives", while Charles maintains he was forced to sign the non-compete 'under duress' in the wake of the acquisition and that the terms are 'overbroad'.[32]

Example 2

Edelman Financial Engines recently experienced an advisor who departed to form his own RIA with LPL. The two firms ended up in court as Edelman sought to enforce a 15-month non-solicit and non-acceptance provision in the advisor's employment contract. According to a preliminary ruling by the presiding judge, "Edelman takes the position that any communication initiated or participated in by the advisor that doesn't include the statement that he can't take their business is solicitation. It is far from clear that it is correct in that interpretation, or that the advisor did more than merely announce his transition to a new company."[33]

This is not the first time Edelman has made this claim; in 2019 such a claim was denied by FINRA where Edelman tried to prevent an advisor who left for Carey Street."[34]

[32] Citywire – 'Allegations fly in Mercer non-solicit suit against ex-advisor' (2022)

[33] Citywire – 'Edelman non-compete fight raises questions about RIA-to-RIA breakaways' (2022)

[34] IBID

Un-Independent RIA Legal Barriers *Continued*

Example 3
An advisor was employed by Washington state-based RIA Brighton Jones up until 2021. The advisor left Brighton and the advisor immediately filed suit in California to nullify certain parts of his non-compete. California, known for being the toughest state to enforce such agreements, dismissed the suit as lacking jurisdiction.[35]

In the near term, part of these efforts by firms may be to set a precedent for their other advisors thinking about making a similar move. Though over the long term it is possible to see the RIA industry adopt something akin to the broker protocol seen in the wirehouse space, to set a very specific precedent on what advisors can and cannot do when they move between firms.

However, before something like that becomes a reality, we continue to advise our clients to move with caution and pay special attention to the employment contracts of their firm, as well as any firm they are looking to move to or merge with.

[35] Citywire – 'Edelman non-compete fight raises questions about RIA-to-RIA breakaways' (2022)

Big M&A Breakups Continue

For those who read last quarter's newsletter, the wealth management industry recently experienced a major deal gone wild with the publicized Fieldpoint Private acquisition that was busted up between management, Summit Financial and Merchant Investment Management. As discussed previously, key (recurring) lessons learned from that included:

1. Culture compatibility cannot be overlooked or understated

2. It cannot be simply assumed that advisors, or clients, will go along with a deal

So, after learning about UBS backing out of its planned acquisition of Wealthfront in the third quarter, the primary question is how to avoid an M&A deal bust. The immediate analysis revealed simple and banal explanations to add to the list:

3. Timing is everything

4. A 'fair' valuation is relative

The story: Wealthfront, founded in 2008, is a US based robo-advisor, who became the cornerstone of UBS CEO Ralph Hamers's new expansion strategy following the $1.4 billion purchase in February 2022. Had the purchase gone through, UBS would have added over $27 billion in assets and over 470 thousand new clients, while also boosting its potential technology offering for all clients.[36]

So, where did it go wrong?

At the announcement there were murmurs about potential brand dilution as a cheaper offering might push away current clients with this entirely new call center style client service meeting an ultra-high touch model. In the end what primarily did in the deal was valuation and timing. Between the time when the deal was announced and when it was finally terminated, UBS went from paying 20x revenue in January to an environment now where comparative metrics are down over 40%.[37] This, combined with concerns from US regulators following UBS's string of recent scandals, led to the deal's final demise.[38]

Despite failing due to potential brand dilution, timing, contemporary relative valuation, and regulatory pushback, Wealthfront cannot be too unhappy with the final outcome. To terminate the deal, UBS still invested $70 million into Wealthfront at a $1.4 billion valuation using a convertible note instrument.[39]

[36] AdvisorHub – 'UBS Growth Plans in US Dented After Wealthfront Deal Fails' (2022)

[37] RIABiz – 'UBS backs out of Wealthfront deal, coughs up $69 million and will 'build' not buy as digital top gun Naureen Hassan's arrival as CEO of UBS Americas hangs nigh' (2022)

[38] Reuters – 'Shareholder, regulator pushback ended UBS-Wealthfront deal, SonntagsZeitung reports' (2022)

[39] Citywire – 'UBS backs out of $1.4bn Wealthfront acquisition' (2022)

RIAs Eating Their Own Cooking

Previously, this newsletter has explored that many of the same private equity firms who invest in the RIA industry also have portfolio holdings in the broader wealth management ecosystem, including the wealthtech firms who support RIAs. Some of these PE-backed wealthtech firms have also been engaged in M&A of their own, including the announced merger between Orion (Genstar) and Redtail in April.

Some RIAs have also been eating their own cooking by investing in the wealth tech providers that they use to support their own firms and end clients.

Recent examples of these deals include:

Date	Deal
June 1, 2022	Savant Wealth Management's $3 million investment into Australian Fintech company Lumiant. Savant adopted the firm's technology, an advice engagement platform, becoming the firm's first US customer with Savant's CEO also joining the board-which already featured Merchant Investment Management's President.[40] According to Savant's CEO Brent Brodeski, "We'll be the largest investor in Lumiant and look forward to co-developing the platform...What they bring to the table, plus some of the [intellectual property] we've developed over time, we'll be able to use to deliver a very differentiated client experience and portal."[41]
June 21, 2022	SmartRIA, a compliance software provider takes further investment from Ritholtz Wealth Management ($2.7 billion RIA), which joins other investors which include Dynasty Financial Partners and RIA compliance consultancy MarketCounsel.[42]
June 22, 2022	Bento Engine raises $1m in seed funding from RIA heavyweights including Mariner Wealth Advisors, Beacon Pointe Advisors and Wealthspire. Bento integrates with CRM software to identify advice opportunities and provide client-facing content for use by advisors. All nine investors sit on Bento's advisory council.[43]
August 30, 2022	VRGL, an RIA prospecting startup, takes further investment from backers including Dynasty Financial Partners, Northwestern Mutual Future Ventures, Flyover Capital and Fin Capital, as well as The Compound Capital, a venture fund run by Ritholtz Wealth Management.[44]

[40] Citywire – 'Savant invests $3m in Australian fintech firm Lumiant' (2022)

[41] IBID

[42] Citywire – 'Ritholtz Wealth's VC fund stakes SmartRIA in first deal' (2022)

[43] Citywire – 'Fintech Bento Engine raises $1m in seed funding from RIA heavyweights' (2022)

[44] Citywire – 'RIA prospecting startup raises $15m from Fintop, Dynasty, Ritholtz VC firm' (2022)

RIAs Eating Their Own Cooking *Continued*

RIAs and RIA platforms like Dynasty, Ritholtz and Savant are perfect examples of why RIAs are investing in wealthtech firms. They not only benefit from the potential upside of the investment, but more importantly help shape and get first access to technology which can help give them a competitive advantage for their clients. In a world where many RIA services from investment management to financial planning are now table stakes, having access and control over the next big thing can lead to outsized growth over other competitors.

> The technology has the potential to be pretty transformative within our industry, based on our five-year growth plan, we really needed to expedite our spend on technology in order to build a much more robust client portal.[45]
> -Brent Brodeski, CEO of Savant Wealth Management

[45] Citywire – 'Savant invests $3m in Australian fintech firm Lumiant' (2022)

Q3 M&A Market Color

2022 M&A Activity: A 3rd Quarter 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', rising interest rates, and a rising threat of a recession. Any 'loss of momentum' would seem more a function of the absurdly high deal numbers we have become accustomed to. Even considering that, the 2022 deal number thus far have sustained these all-time highs despite increasing headwinds and market turbulence.

In the third quarter of 2022, of the 65 total RIA transactions, aggregators were the most active announcing 31 (40 in Q2), with private equity 5 (6 in Q2) and RIAs 20 (19 in Q2) well behind (brokers, platform companies, accounting firms and insurance companies made up the remainder). Notably, in terms of AUM (in Q3), despite vastly fewer overall deals private equity buyers acquired $27.5 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 $37.4 billion by aggregators and $11.8 billion by RIA buyers. The total of $101.5 billion AUM and median deal size of $1.6 bn result in a mixed increase/decrease over Q2 2022's total and average AUM.

Q3 2022 Top 10 Deal Summary

Of the top deals in Q3 2022, the most interesting takeaway, other than CI Financial's continued relatively quiet showing with zero deals announced (five YTD) and the return of Focus Financial, Wealth Enhancement group, The Mather Group, Merit Financial Group, Mercer Global Advisors, and MAI Capital Management being dominant M&A players (at least for the 3rd quarter), was the diversity of buyers in the top 10. Usually dominated by private equity and a select few aggregators, in Q3 we saw two insurance companies and two B/Ds take spots in the top 10. Also highly interesting, is that despite all the concerns about valuation levels, interest rates, a potential recession and concerns about future RIA M&A momentum, the market seems to be shrugging these off. Of the top ten transactions (by AUM), 6 fall all or partially into the capital rationale, a continuation from last quarter, with scale historically being the most common with just five overall in Q3. Expansion and Capabilities also 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
Q3 Top 10 Deals Announced

Buyer	Seller	Buyer Type	Seller AUM (billions)	Announcement Date	Transaction Rationale
Advisor Group and Reverence Capital	Signature Estate & Investment Advisors	BD and PE	16.0	8/18/2022	Capital
Integrity Marketing Group	Gladstone	Insurance	13.0	8/5/2022	Scale, Capital
Mariner Wealth Advisors	Heber Fuger Wendin Investment Advisors	Aggregator	8.6	8/2/2022	Capabilities, Scale
Creative Planning	Wipfli	Aggregator	5.0	8/17/2022	Capabilities, Capital
LPL	Boenning & Scattergood	Broker	5.0	7/8/2022	Scale, Capital
NFP Retirement	Newport Private Wealth	Insurance	4.3	7/6/2022	Expansion
Captrust	Frontier Wealth Management	Aggregator	4.1	7/26/2022	Scale
Pathstone	Dyson Capital Advisors	Aggregator	3.5	7/12/2022	Scale, Capital
Corsair Capital	Miracle Mile Advisors	PE	3.1	9/19/2022	Capital
Focus Financial Partners	Beaumont Financial Partners	PE	3.0	9/19/2022	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, 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 key offering is transaction support. Our team offers objective sell-side and buy-side M&A support to help an RIA find a succession partner. With 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 sell-side M&A, deal sourcing, transaction structuring and negotiations, due diligence support, and finalizing and closing deals.

The second 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 third way we can help is by providing liquidity to founders to achieve a certain business objective without giving up control of their business through three primary capital solutions, including our Traditional Credit, Revenue Participation Interest (RPI), and Minority Investment programs.

Dynasty's M&A and Capital Strategies Team

As a financial technology and value-add wealth management platform, Dynasty Financial Partners began its capital program nearly 9 years ago with our traditional debt program based on the needs of our clients.

Today, Dynasty's M&A and Capital Strategies team has the premier diversified capital offering in the industry that is exclusively for its clients.

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 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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