BNY MELLON | PERSHING

The Evolution of Experience

How increasingly sophisticated buyers are re-shaping RIA M&A—and the industry overall

In collaboration with

ECHELON PARTNERS

Introduction

As merger and acquisition activity in the U.S. wealth management industry has surged in recent years, the landscape, composition—and experience levels—of buyers have evolved considerably.

An increasing global awareness and appreciation for the Registered Investment Advisory model in particular, has led more financial institutions, private equity firms, and institutional investors to inject capital into the industry, which directly accelerate deal-making and increase valuations.

As a result, RIA sellers now have more options than ever when evaluating potential suitors—and subsequently, a wider range of considerations as they contemplate merger and acquisition opportunities. To properly assess these opportunities and understand the rapidly developing market of buyers of RIA firms, this white paper will address:

- Emerging trends in wealth management M&A activity: The rise of “professional” buyers (those doing four or more deals a year)
- Buyer breakdown: Primary types of firms acquiring RIAs
- What makes professional buyers successful?
- Finding the right fit: Lesson from industry leaders and key questions

Emerging Trends in Wealth Management M&A Activity

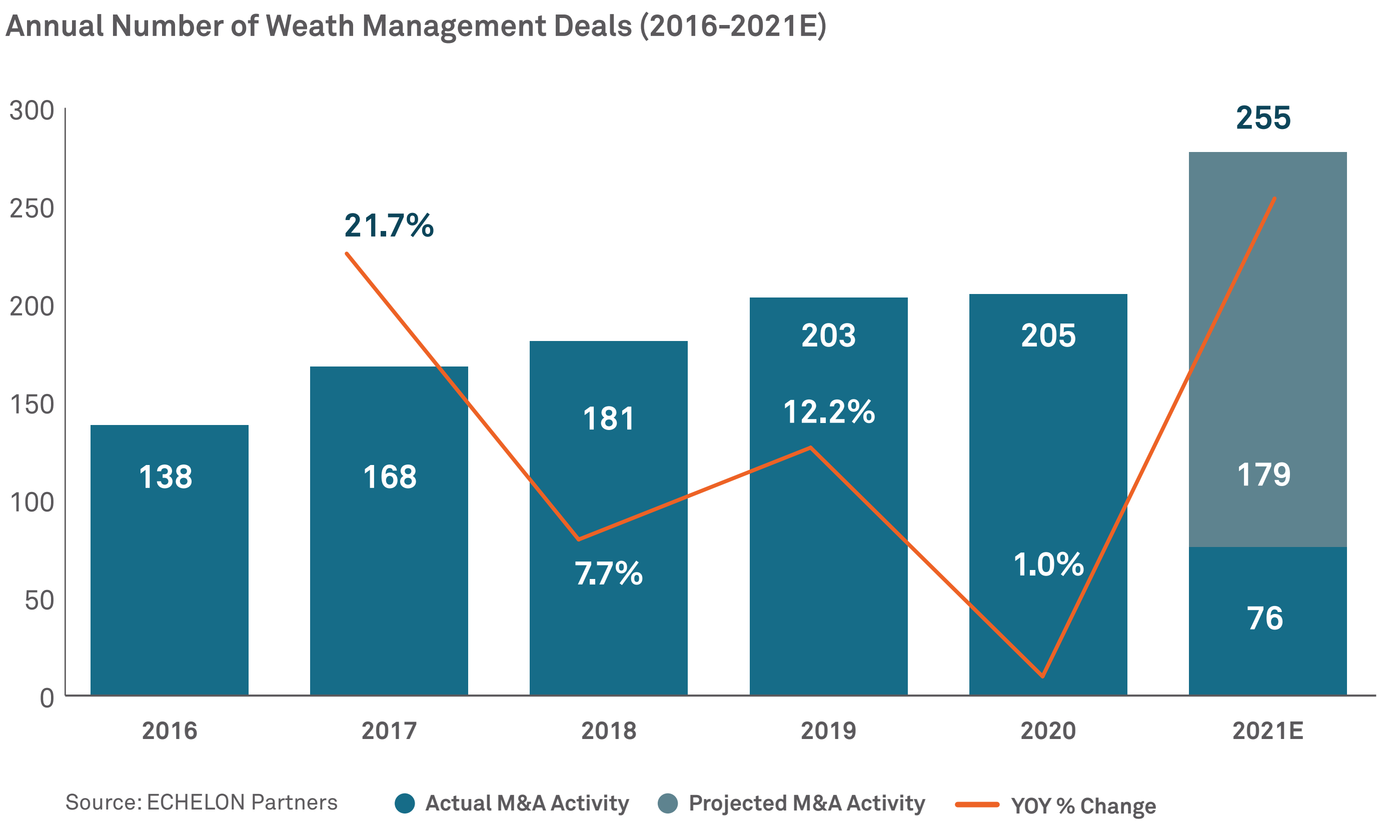
THE RISE OF “PROFESSIONAL” BUYERS

A concentrated group of firms have become increasingly responsible for the majority of deal activity over the last several years, which have been the most active periods for M&A in the history of the wealth management industry. Professional buyers are those who complete four or more deals in a year.

Specifically, there were 205 deals that took place in the wealth management industry in 2020, and 203 transactions in 2019, 66% of which were done by professional buyers, according to ECHELON Partners’ RIA M&A Deal Report Research. Both periods were record levels and the industry has now experienced eight consecutive years of increasing M&A activity.

That pace is showing no signs of slowing down in 2021 as buyer interest and competition levels for established RIAs remains high: There were 76 deals in Q1 2021, which registers as the largest number of deals ever recorded in a single quarter. Already, 2021 is shaping up to be yet another record-setting year for industry M&A activity, as Figure 1 on the next page indicates.

FIGURE 1: ANNUAL NUMBER OF WEALTH MANAGEMENT DEALS: 2016-2021



Professional Buyers Increasingly Driving Deal Activity: The number of firms that are strategically and aggressively looking to grow through M&A has expanded significantly in recent years. At a macro level, the emergence of these firms has been one of the core drivers of M&A activity—and they have presented an expanding set of options for sellers who are interested in engaging with buyers that have previous experience in wealth management M&A.

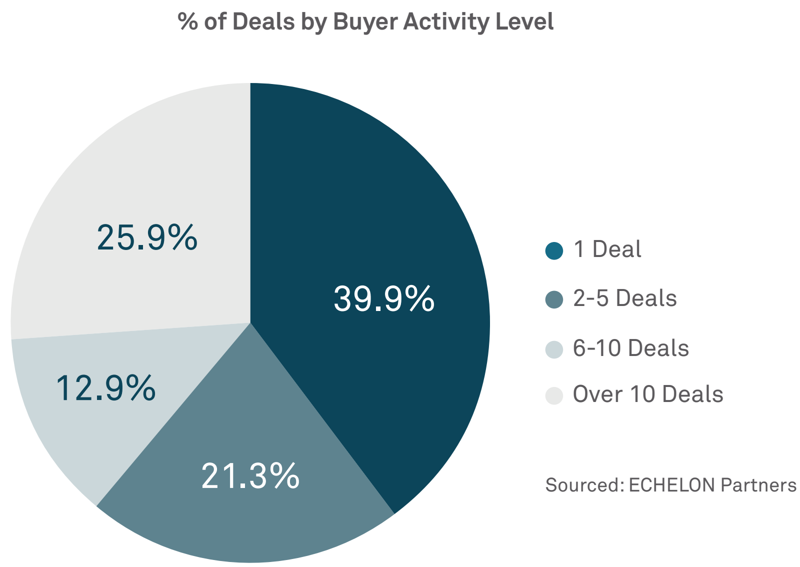
The extent to which they aim to grow through acquisition, of course, varies and is based on the size of the buyer and the financial backing or capital they have on hand to conduct acquisitions.

But the influence of professional buyers is undeniable in the midst of the recent surge in M&A activity. Specifically, looking at industry M&A activity since 2016, ECHELON data reveals:

- Of the 971 total deals that occurred between January 1, 2016 and March 31, 2021, 60.1% of the transactions involved a buyer that engaged in two or more deals during this time period.
- The top 10 most active buyers, meanwhile, were responsible for 23.7% of the total deal activity during this time period—and 41.7% of the $1.32 trillion in total assets under management acquired.

Figure 2 below provides a more granular breakdown and reveals that nearly 40% of the deals that have occurred since the beginning of 2016 involved buyers that engaged in **six or more acquisitions between 2016-Q1 2021**, highlighting the growing number of professional buyers in the space:

FIGURE 2: BUYER BREAKDOWN 2016-Q1 2021—ACQUISITION SHARE BASED ON BUYER ACTIVITY



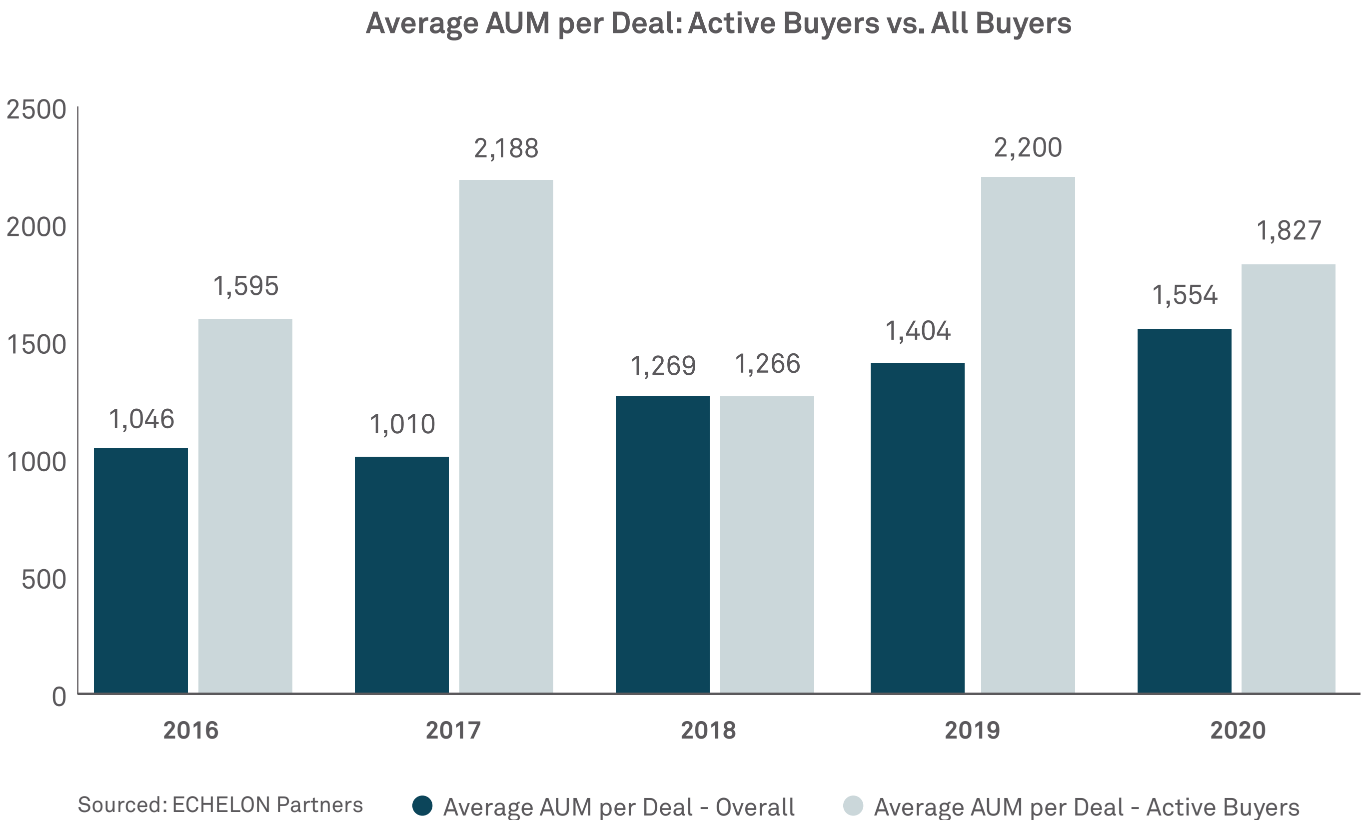
This concentration has continued—and is even more considerable—since the start of 2019 as private equity firms, financial institutions and long-term capital investors powered deal-making for some of the largest wealth management firms. Specifically:

- Of the 484 deals that have been completed since the start of 2019, 73% have involved a buyer that has engaged in two or more acquisitions during the period.
- At the same time, the top 10 most active buyers have been responsible for 31% of the acquisitions that have taken place since the beginning of 2019.

Seller Size Increases as Activity Surges: It is worth adding that while deal activity has accelerated at a blistering pace, the average size of an acquired firm was $2 BN in assets under management in Q1 2021.

Professional buyers, in particular, are responsible for gradually driving this number to new heights over the years: Buyers that have made at least two acquisitions between 2016 and 2020, have purchased firms with an average of $1.82 BN in assets, vs. $1.26 BN in for firms that have made just one acquisition. **Figure 3** on the next page offers a more granular breakdown of the average acquired AUM for experienced vs. one-time buyers:

FIGURE 3: AVERAGE AUM PER ACQUISITION—ACTIVE BUYERS VS. ALL BUYERS



This increase is an important development for many reasons. To be sure, it has been enabled by an influx of capital and broader range of financing options needed to make larger acquisitions. But it is also a clear indicator that larger, professionally managed wealth management firms have greater confidence in today's more experienced buyers—and are more receptive to M&A as an opportunity to drive growth and provide succession planning solutions.

What Can Professional Buyers Do to Stand Out?

1) Have a differentiated business model

2) Provide flexibility in the way the sellers can transition from the business

3) Offer a unique deal structure

4) Provide assistance with marketing and growth

5) Provide a unique technology stack that affords efficiency and profitability

Buyer Breakdown: Primary Firm Types

As M&A and the RIA ecosystem continue to evolve, it is critical to understand the types of firms that are emerging as the most active buyers. They not only present more options for RIA seller, but there are a number of lessons that aspirational or first-time buyers can learn as they contemplate future M&A opportunities.

The most experienced buyers' business models, strategies and objectives vary significantly. To simplify the marketplace, philosophically, the most active RIA acquirers can often be grouped into one of three camps:

1 PROFESSIONAL BUYERS

2 BUSINESS BUILDERS

3 MINORITY INVESTORS

PROFESSIONAL BUYERS

Professional Buyers are the most active acquirers of RIA firms, by far, and their business models are heavily reliant on M&A to drive growth. These firms engage in multiple transactions each year, have dedicated M&A teams to source opportunities and execute deals—and often have the backing of private equity or financial institutions to power ongoing acquisitions.

As noted earlier, buyers that have made ten or more acquisitions since the start of 2016 are responsible for roughly one-quarter of all deal activity. **Figure 4** below lists the ten most active "Professional Buyers" in the market, along with their activity levels:

FIGURE 4: TEN MOST ACTIVE PROFESSIONAL BUYERS IN 2020

Buyer	Deals Announced	AUM Acquired ($MM)	Parent Firm/ Financial Backer	Publicly Traded (Y/N)
Mercer Advisors	40	17,151	Oak Hill Capital	No
Focus Financial Partners	38	92,096	Publicly traded	Yes
Hightower Advisors	26	43,015	Thomas H. Lee Partners	No
CAPTRUST	24	211,588	GTCR	No
Wealth Enhancement Group	22	16,506	TA Associates	No
Buckingham Strategic Wealth	21	22,534	Focus Financial Partners	No
EP Wealth Advisors	17	5,396	Wealth Partners Capital Group, Berkshire Partners	No
Hub International Limited	15	74,352	Hellman & Friedman	No
CI Financial Corp	15	56,156	N/A	Yes

Source: ECHELON Partners

Aggregators and Integrators: Many of the Professional Buyers are often described as consolidators, roll-ups or platforms—broad descriptors that can create more confusion than clarity.

While there are nuanced differences in every firm's approach to a deal and post-close strategies, we believe Professional Buyers can largely be grouped into two subcategories: Aggregators and Integrators.

At the core, the primary difference is that an Integrator seeks to unify its acquisitions under a single brand and ownership structure, while often providing the firms it acquires with a wide range of centralized support and resources.

An Aggregator, meanwhile, leaves the firms it acquires to operate with relative autonomy, maintain some direct ownership and function more as an affiliate or boutique of the acquirer. **Figure 5** below offers a high-level breakdown of the primary characteristics of Integrators and Aggregators:

FIGURE 5: PRIMARY CHARACTERISTICS OF INTEGRATORS AND AGGREGATORS

	Aggregator	Integrator
Brand	Seller typically maintains their own brand, but indicates affiliation with the Buyer	Seller assumes Acquirer's brand post-close
Technology & Operations	Sellers often have the option to leverage a portion of Acquirer's technology platform but are not required to do so	Sellers typically transition to the Buyer's technology platform and is 100% integrated with the back-office
Investments	Investment philosophy and portfolio management remains with the Seller	Investment philosophy and decision-making controlled by a centralized team
Marketing	Ability to leverage marketing teams and resources at the home office level	Receives centralized marketing support, lead generation, and referrals from across the organization
Ownership	Varies; Acquirer typically takes majority ownership and Seller retains a minority stake	Typically, buyer takes 100% ownership; Sellers become partners
Firm Examples	CI Financial, Hightower	Cerity Partners, Creative Planning

Source: ECHELON Partners

BUSINESS BUILDERS

While they engage in acquisitions far less frequently than Professional Buyers, "Business Builders"—a term we have developed for this white paper—are playing an important role in industry M&A and offer another path to partnership for sellers.

Since 2016, roughly 20% of the deals in the wealth management industry have been made by Business Builders, or firms that have engaged in two to five acquisitions during the last five years. More often than not, they typically involve an RIA making an acquisition of another RIA.

Business Builders are opportunistic acquirers and their M&A activity is frequently motivated by the following:

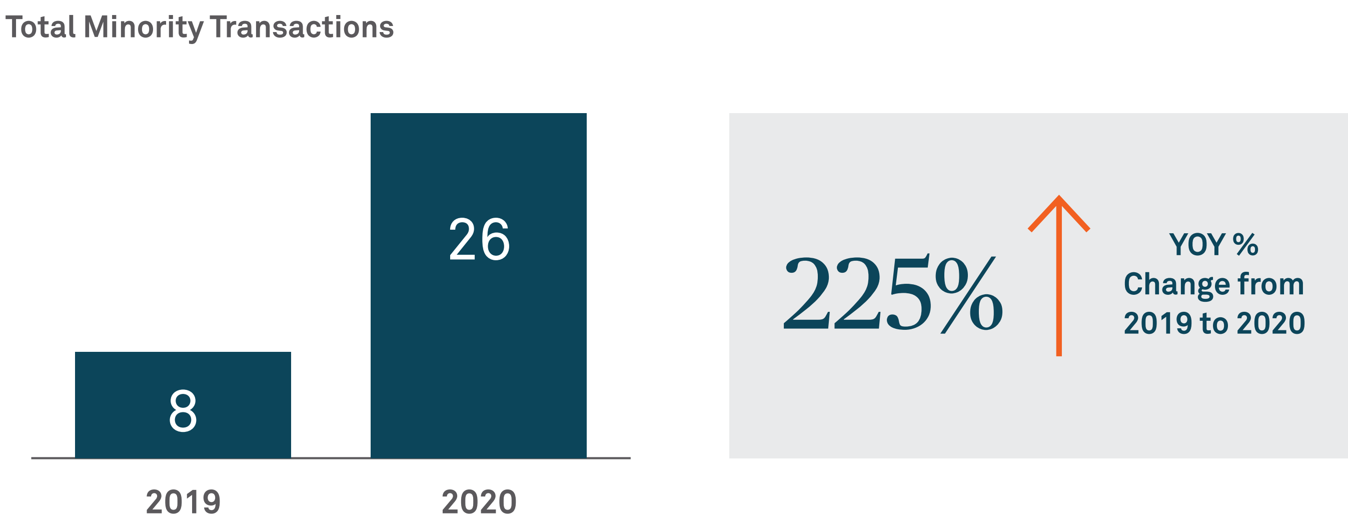
- **Succession:** A seller in a local or complementary market is in need of a succession solution and a liquidity event.

- **Growth Threshold:** As firms become larger, it becomes more challenging for the founders to grow the firm, on a relative basis, exclusively through their individual business development and client acquisition efforts.
- **Talent Acquisition:** The competition for experienced advisors is at an all-time high. Business Builders use M&A to acquire vs. hire new talent and build a bridge to their next generation of talent (G2).
- **Peer Partnership:** Given their smaller size and that they are often led by advisor vs. professional managers, Business Builders can feel more like a merger than an outright acquisition. For sellers that are looking for an alternative to the Professional Buyers, Business Builders can help preserve a small business culture while still offering opportunities to grow the combined firms.

MINORITY INVESTORS

There have been a growing number of minority acquisitions in the wealth management industry. In 2020, ECHELON Partners tracked 26 minority acquisitions—nearly three times of the number of minority deals that took place in 2019, as **figure 6** below indicates:

FIGURE 6: MINORITY ACQUISITIONS, 2019 VS. 2020



Source: Echelon Partners

The number of minority investors with specific propositions for RIAs has expanded and empowered this growth. Firms such as Merchant Investment Partners, Emigrant Bank, Summit Financial Partners, Kudu Investments and LPL Financial have played an active role in this part of the market.

They present a new option for firm founders who are looking to monetize a portion of their firm's value—without giving up control or exiting the business. For firms that are looking to buy out a partner, or a seller that still considers itself to be in "growth mode," a partnership with minority investors has had particular appeal.

Typically, a minority investor acquires a 20%-25% stake in a firm and has a limited influence in its governance and decision-making. In exchange, however, it will participate in the cash flow of a company it acquires—while also providing expertise, guidance and resources that can assist in a firm's future organic and inorganic growth.

What Makes Professional Buyers Successful?

While the number of acquisition opportunities and experienced buyers has soared in recent years, the universe of aspirational buyers has expanded as well.

With more advisory firm founders seeking to exit or gradually transition out of the business, profitable RIA firms are well-positioned to take advantage of inorganic growth opportunities. This could include the acquisition of a single advisor, a "tuck in" of a team of advisors, a merger, or the outright acquisition of an entire firm.

There are now many lessons that aspirational buyers can learn from observing the most successful professional buyers. Key considerations include:

- **Leadership:** Firms with dedicated, professional leadership were among the most successful buyers in 2019 and 2020. Having a team, or at minimum an individual, that has the ability to devote the vast majority of their time and focus to growing the firm and engaging in the M&A process is essential. Aspirational buyers led by individuals with heavy advisory responsibilities are frequently presented with the "challenge to choose" between their clients and a deal. This presents risks to the existing business, as well as the success rate of a potential transaction.

- **Expertise & Stamina:** Often, aspirational buyers can have a heightened sense of their deal-making acumen—even if they have never previously engaged in a merger or acquisition. It's crucial to understand the marketplace, valuations and the entire M&A process, in addition to being able to negotiate and structure deals. We consider engaging a third-party investment bank to inject their expertise, and importantly, provide their objective view of acquisition targets, cultural fit and alignment opportunities. It can take 12 to 18 months to complete an acquisition; having a partner with expertise and capacity is an important ingredient to any successful acquisition.

- **Scale:** The most successful acquirers are those that have the capacity to add staff and clientele without excessive friction and redundancy. As an aspirational buyer, it is important to assess how ready you are to integrate another firm into your operations, workflows and technology after a deal closes. Professional Buyers have been successful because of their deep pockets and their ability to scale. Aspirational buyers should take a cue from Professional Buyers and ask themselves an important question: **Are we a practice, or a platform?** The latter has clear processes, capacity and the ability to scale—and ultimately, an increased likelihood for post-close success.

- **Partners:** In addition to engaging an investment bank, it is also important to leverage your existing partners as you embark on the M&A process.

At BNY Mellon | Pershing, we support our clients with a number of resources and services that can assist experienced buyers. Our goal is to equip buyers and sellers alike to strengthen their business ahead of a transaction. We have consulting resources to help firms approach a transaction with confidence, and we have a dedicated transitions team to help facilitate the movement of assets. Our business development team helps facilitate introductions and look for opportunities to support our sophisticated buyers. We also work with leading consultants and investment banks in the industry, like Echelon Partners, to stay informed on market trends and refer clients to experts for guidance around transactions.

Finding the Right Fit: Lessons from Leaders & Key Questions

Claire O'Keefe

Partner and Head of Corporate Development at Cerity Partners

Biography

Claire O'Keefe serves as the Head of Corporate Development for Cerity Partners and as a member of the firm's executive committee. Prior to joining Cerity in 2018, she served as an Executive Committee member and client advisor for The Lyman Group and Heritage Securities where her responsibilities included strategic planning and client advisory services. She is recognized as an industry expert and has a long history of providing wealth management services to affluent families, business owners, and non-profit organizations.

Claire has also served as a member of the Henry Viscardi School Board of Trustees, an organization that she remains very passionate about, and has also held senior roles in numerous other philanthropic organizations.

Claire has an M.B.A. from Stony Brook University, a B.A. from Trinity College and is a member of Vistage International.

Factors Affecting Inclusion in ECHELON's Analysis

Cerity Partners has been one of the most prominent acquirers of wealth managers in the last several years and as Head of Corporate Development, Claire has been at the forefront of the deal processes. Since the start of 2020, the firm has announced five acquisitions that have averaged over $1.0 BN in AUM each. Claire's active involvement in these negotiation processes gives her an excellent sense of current market trends and the fact that she and her colleagues have successfully announced so many large deals in a relatively short time frame is a testament to her expertise in the field.

Arthur Ambarik

CEO & Head Financial Advisor, Perigon Wealth Management

Biography

Arthur Ambarik is Chief Executive Officer of Perigon Wealth Management and is a Financial Advisor with a CFP® designation. He brings more than 19 years of experience to his role with Perigon and has served in advisory and operational positions with Ameriprise Financial Services, LPL Financial, and YellowBrickRoad Financial Advisors. Arthur is also a member of major industry organizations including Financial Advisor Network and The Institutional Investor RIA Institute, giving him additional insight into the key industry trends and common ideas being circulated throughout the wealth management industry.

Arthur holds a B.A. in Economics from Williams College.

Factors Affecting Inclusion in ECHELON's Analysis

Perigon Wealth Management is a financial advisory firm headquartered in San Francisco, with approximately $2.4 BN in assets under management. It has a small group of 32 employees, of which 27 are financial advisors. In 2020 the firm announced its first acquisition: a deal to acquire the ESG-focused RIA RLP Wealth Advisors. The deal process, led by Arthur, created a firm with a new national footprint and will help Perigon remain ahead of the increasing trend toward socially minded investing. The deal highlights that despite the high deal activity from prominent national RIAs and consolidators, relatively smaller firms with the right vision and leadership can complete accretive acquisitions that add significant value to all parties involved.

When taking steps to sell an advisory firm, it is critical to know your options and understand the landscape of buyers. But it is equally as important to have a framework for identifying the best ongoing partner to your firm's leadership, employees and clients.

So where should you start? To assess the fit of a potential suitor and identify areas of alignment when evaluating experienced buyers, two of the industry's leading acquirers suggest that advisory firm founders always focus on three key qualitative questions:

1. Are we culturally aligned?

Both Ms. O'Keefe and Mr. Ambarik agree that this is the most important question to ask and thoroughly understand when evaluating a potential buyer.

"It's not about how you manage investment portfolios. It's not about how you do planning. It's literally, do you share the same or similar values? Do you believe in the same things that the other firm believes?" says Mr. Ambarik. "If you have different reasons for doing what you do, and different ways of defining success, that can be incredibly challenging to overcome."

2. What is the value proposition that can be created by combining your two firms?

Beyond the deal terms, both executives state it is important to define how both firms help each other—and ultimately create value.

"From our perspective, 2 + 2 should equal something much greater than four—for both parties," said Ms. O'Keefe. Specifically, she said that sellers should look for buyers that have complementary capabilities, skill sets and services—and ultimately the combined entity should be more "complete" the moment a deal closes. "Maybe you only focus on planning, and perhaps you are in a new geographic region for the buyer. The buyer can introduce new investment or estate planning services to you, your clients and your prospects. The right fit should enhance your capabilities, make you more valuable to your clients and make you more attractive to prospects and new client opportunities. At the same time, the buyer has the ability to establish a footprint through your firm and grow in a new area. That is a win-win."

3. Do we share a common vision?

Both Ms. O'Keefe and Mr. Ambarik encourage sellers to do their due diligence and push buyers to articulate how they envision managing, growing and operating the business after a deal closes.

"All established firms should be very good at articulating their vision and their values," said Mr. Ambarik. "If someone can't effectively articulate that to you as a buyer in a way that you understand it and feel aligned with it, then that should be a red flag."

"At Cerity Partners, the bottom line for us is that we are seeking partners to continue to grow and build our firm with. We are not a consolidator or aggregator. We are a unified partnership. We operate from one mindset. Every partner in our firm has a voice and has a vote," said Ms. O'Keefe.

To learn more about creating an M&A strategy that is right for your business, please reach out to your Relationship Manager.

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BNY Mellon's Pershing is a leading provider of clearing and custody services. We are uniquely positioned to help complex financial services firms transform their businesses, drive growth, maximize efficiency, and manage risk and regulation. Wealth management and institutional firms outsource to us for trading and settlement services, investment solutions, bank and brokerage custody, middle and back office support, data insights, and business consulting. Pershing brings together high-touch service, an open digital platform and the BNY Mellon enterprise to deliver a differentiated experience for every client. Pershing LLC (member FINRA, NYSE, SIPC) is a BNY Mellon company. With offices around the world, Pershing has over $2 trillion in assets and millions of investor accounts. Pershing affiliates include Albridge Solutions, Inc. and Lockwood Advisors, Inc., an investment adviser registered in the United States under the Investment Advisers Act of 1940. Additional information is available on pershing.com, or follow us on LinkedIn or Twitter @Pershing.

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