



ECHELON's RIA M&A Deal Report™

U.S. Wealth Management | Q4 Executive Brief

Key Trends and Highlights

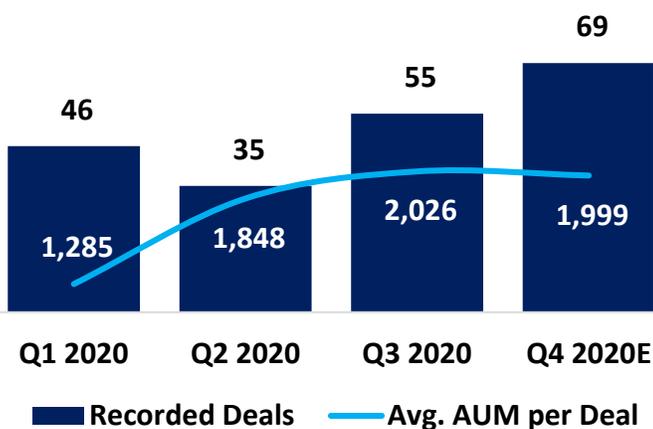
- Q4 Deal Volume Shatters Quarterly Record, Pushes Total 2020 RIA M&A to a New All-Time High:** The fourth quarter of 2020 has seen 69 deals through Dec. 22, 2020 – a new record number of transactions for a single quarter. The current total represents a 25% increase over Q3 2020, which previously set the quarterly high-water mark with 55 total deals. This surge in Q4 activity has powered another record-breaking year for RIA M&A, with at least 205 deals registered for the year, compared with the 203 deals that ECHELON reported in 2019. This is an impressive rebound, given the 162 total deals forecasted for 2020 at the end of Q2 – which was the slowest period for RIA M&A in roughly four years. 2020 now represents the eighth consecutive year that the total number of deals in the RIA industry has increased.
- Average Deal Size Increases Significantly:** The COVID-19 crisis and associated market downturn led to a temporary pause in many M&A processes during Q2. However, once market conditions stabilized and dealmakers adapted to

the new normal of Zoom and virtual management meetings, activity picked up, especially in the upper AUM tier. Average AUM acquired per transaction increased to over **\$1.8 BN in 2020¹**, up 24% over 2019's average of \$1.5 BN and is now the highest annual average to date.

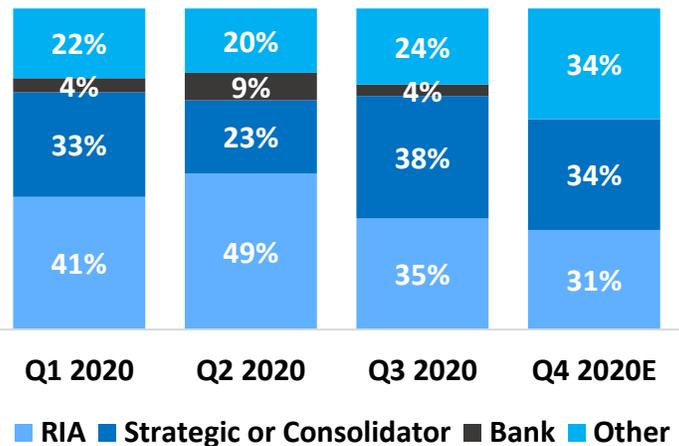
- A Shifting Buyer Landscape:** Numerous new players have flocked to the wealth management industry over the last year, and Q4 introduced the first-ever SPAC to the RIA M&A landscape, a \$115 MM vehicle raised by Kingswood. Private equity's presence continued to grow through direct and secondary investments; notably, Hightower's lead investor – Thomas H. Lee – closed a secondary sale to Goldman Sachs, Neuberger Berman and Collier Capital during Q4. Professional buyers continued their aggressive push to acquire high-quality RIAs, and the industry's high profitability and steady cash flows are increasingly attracting new entrants and resulting in increased competition and higher valuations.

Exhibit 1: 2020 Quarterly Deal Summary

Total Deals & Average AUM Per Deal¹



Breakdown of Acquirers by Firm Type



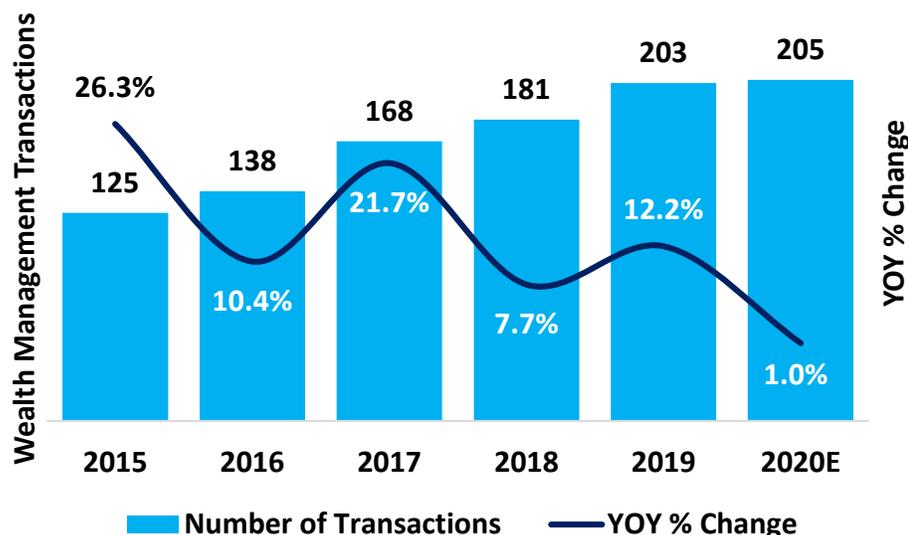
69
Deals Expected in Q4 2020, the Most of Any Single Quarter

97% Expected Increase in Deal Volume between Q2 and Q4 2020

2020 deal volume reached its lowest point during Q2, corresponding with the peak of the COVID-19-driven market downturn. Since then, the quarterly deal count rebounded rapidly. Despite extreme economic uncertainty related to the election, global pandemic, and a host of other factors, deal counts rose in Q3 and Q4, setting two new quarterly records. The strong second half of the year was even enough to make up for the first half's lack of activity and propel 2020 deal volume to a record setting 205 transactions, a 1% increase over 2019's total.

¹Excludes transactions involving over \$20 BN in AUM.

Exhibit 2: Annual Deals and Average AUM Per Deal¹

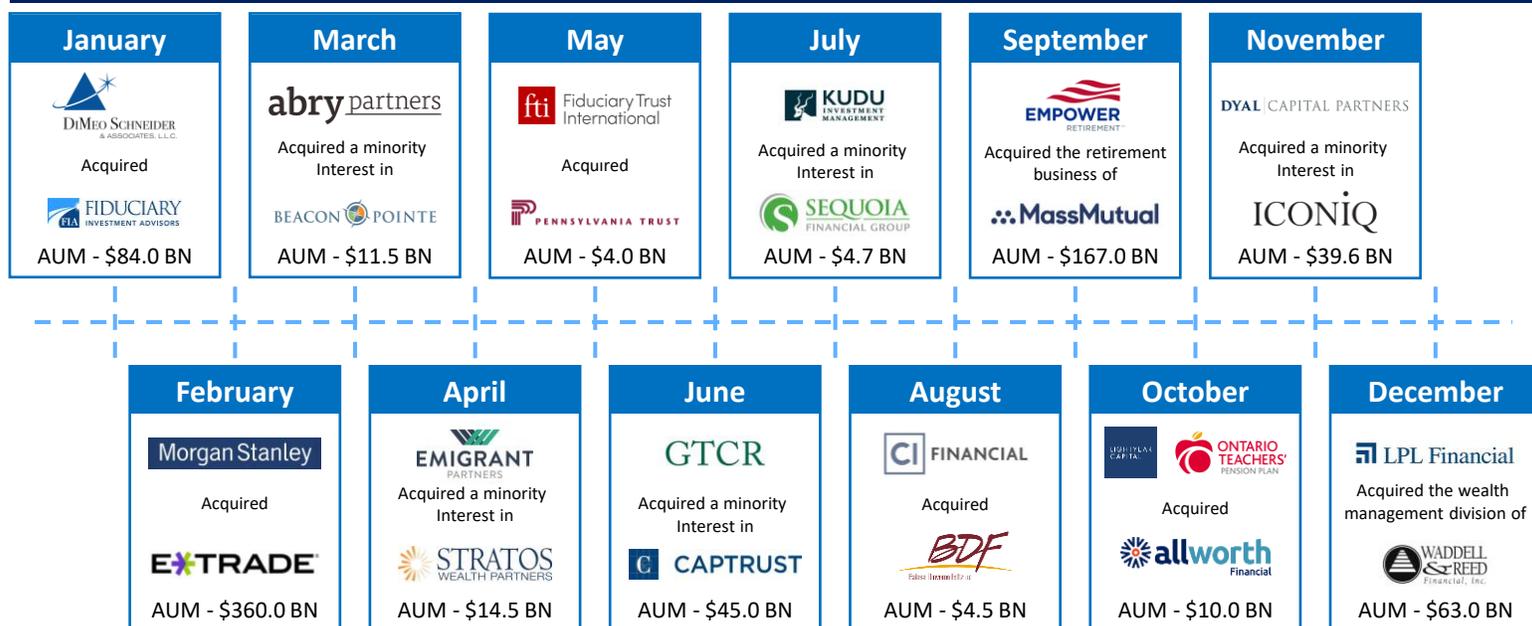



205 Deals Projected in 2020 Due to a Strong Recovery in Q3-Q4

23.7% Increase in Average AUM Per Deal in 2020 Over 2019

¹Excludes transactions involving over \$20 BN in AUM.

Exhibit 3: Key Monthly Transactions



2020 experienced some of the largest wealth management M&A transactions to date. As smaller firms shelved acquisition plans (possibly due to resource constraints and COVID-19), larger well-capitalized buyers executed banner transactions, as illustrated in **Exhibit 3**. The year's most notable transactions included DiMeo Schneider's purchase of \$84 BN in AUM Fiduciary Investment Advisors, Morgan Stanley's acquisition of E*TRADE and its \$360 BN in AUM and Empower Retirement's acquisition of MassMutual's \$167 BN retirement business.

Private equity interest also remained strong with Abry Partners, GTCR, Lightyear Capital, and Dyal Capital Partners, making headlines. Dyal's investment strategy has

historically focused on GP stakes of hedge funds and private equity funds and their deal for multi-family office Iconiq was their first foray into wealth management. Unlike the other aforementioned private equity investors, Dyal's investments are structured as long-term permanent capital where there is no defined fund life.

Q4 also saw one of the year's largest deals, with Lightyear Capital and the Ontario Teacher's Pension Fund acquiring Allworth, the \$10 BN RIA for \$750 MM. The deal exemplifies two key trends we have written about in recent years; (1) private equity-to-private equity transactions increasing, and (2) the growing presence of institutional investors in wealth management dealmaking.

Exhibit 4: Top 10 M&A Transactions in 2020

Seller	Buyer	Buyer Type	Seller AUM (\$ MM)	Date
E*TRADE	Morgan Stanley	Bank	360,000	2/21/2020
MassMutual (Retirement Plan Division)	Empower Retirement	Other (Plan Administrator)	167,000	9/8/2020
Fiduciary Investment Advisors	DiMeo Schneider & Associates/NFP	RIA	84,000	1/31/2020
Wilshire Associates	CC Capital, Motive Partners	Other (Private Equity)	73,000	10/2/2020
Waddel & Reed Financial	LPL Financial	Other (Broker Dealer)	63,000	12/3/2020
Hightower Advisors	Goldman Sachs Asset Management, Neuberger Berman, Collier Capital	Other (Asset Manager, Private Equity)	61,600	10/22/2020
Creative Planning ¹	General Atlantic	Other (Private Equity)	50,000	2/7/2020
CAPTRUST Advisors ¹	GTCR	Other (Private Equity)	45,000	6/2/2020
Resources Investment Advisors	OneDigital	Other (Insurance)	45,000	2/6/2020
Iconiq Capital ¹	Dyal Capital Partners	Other (Private Equity)	39,634	11/10/2020

¹Denotes a minority investment. Source: Company Reports, SEC IARD, ECHELON Partners Analysis.

The following key trends are displayed in **Exhibit 4 “Top 10 M&A Transactions in 2020”**:

- **Minority investments by private equity** in the most prominent wealth management platforms continue to grow. Exemplary transactions include General Atlantic’s minority investment in Creative Planning, GTCR’s minority investment in CAPTRUST Advisors, and Dyal Capital’s minority investment in Iconiq Capital.
- **Retirement Plan Asset Consolidation** gained speed as Empower purchased \$180 BN in AUM over the past year from Mass Mutual (\$167 BN AUM), Personal Capital (\$12.2 BN AUM), and Fifth Third Bank (\$6.2 BN AUM).
- **Wall Street banks continue to covet Main Street Investors.** Morgan Stanley’s \$13 BN purchase of E*TRADE represents “an extraordinary growth opportunity for our wealth management business and a leap forward in our wealth management strategy”, said CEO James Gorman. This transaction is likely in response to Goldman Sach’s focus on growing their online platform, Marcus, and Schwab’s acquisition of TD Ameritrade. The cash and investments of the mass affluent community are at the forefront of Wall Street and its M&A activity.

Exhibit 5: Top 5 Most Active Acquirers in 2020

Buyer	Buyer Type	Total AUM Acquired (\$ MM) ²	Total Number of Deals ²
CI Financial Corp	Strategic or Consolidator	27,420	9
Hightower Advisors	Strategic or Consolidator	11,770	9
Creative Planning	RIA	5,054	8
Mercer Advisors	Strategic or Consolidator	2,627	7
Focus Financial	Strategic or Consolidator	14,378	7

²This breakdown does not include sub-acquisitions made by the buyer’s partner firms.

CI Financial, a new entrant to the U.S. wealth management M&A landscape this year, was the most active dealmaker in 2020. Overall, Strategic Acquirers or Consolidators were the most active types of buyers. Some of these firms may be backed, in part, by private equity companies, but they have a starkly different M&A strategy than the private equity firms referenced in **Exhibit 4**. These active acquirers capitalize on their established platform and considerable amount of industry and deal-making knowledge. This has allowed them to enter new geographic markets through acquisitions, while realizing significant expense synergies and cross selling opportunities – a trend likely to continue in 2021.

Coming Soon: The 2020 ECHELON REIA M&A Deal Report



ECHELON will Release the Full Version of [The 2020 RIA M&A Deal Report](#) in January.

The report will build on the data and analysis delivered in this [executive brief](#) and will provide dealmakers with an effective tool to understand the [current and future state of the RIA M&A environment](#).

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