Mergers & Acquisitions Activity Update: January 2018

Near-Record Pace in 2017 Halted by Fourth Quarter Slowdown

Merger and acquisition activity within the financial advisory industry, in 2017, remained strong through the third quarter and appeared to be on pace to beat 2016 transactions. However, activity failed to keep pace in the fourth quarter, resulting in a decline from 2016, yet still the third-highest year on record. The number of mergers or acquisitions targeting independent advisory firms dropped to 70, compared with 80 in 2016, according to the latest FA Insight review of industry M&A trends.

Figure 1
Transaction Announcements by Year and Fourth Quarter, 2016–2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1-Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>23</td>
<td>57</td>
</tr>
<tr>
<td>2017</td>
<td>70</td>
<td>60</td>
</tr>
</tbody>
</table>

Key Trends

- Total deals down 14% in 2017
- Median AUM deal size increases to $434M
- RIA multi-dealers gaining prominence
- Market suggests deal making to intensify

The reason for this slowdown? Numerous forces may have had an impact on activity levels. Many advisors cite being distracted late in the year with client concerns related to tax reform, while some “multi-dealers”—those firms that have engaged in at least three deals in the past five years—appear to have been in the process of securing capital to fuel acquisitions for the coming year. Market forces also suggest any slowdown may be temporary—favoring a pickup in activity is the demand for succession solutions, coupled with healthy firm profits and security market growth. Indeed, we have already seen a flurry of announcements in the first weeks of 2018.
Methodology

FA Insight drew from a variety of sources to produce this report. New transaction data were gathered from various trade articles, press releases and other secondary research sources, including the Worldwide Mergers & Acquisitions database compiled by Securities Data Company. To produce historical trends, new data are added to FA Insight's proprietary database that covers the specifics of major deals announced since 2000.

All publicly announced transactions involving the acquisition or merger of an independent advisory firm are reviewed for inclusion. Coverage is limited to any RIA or independent trust company, serving households or individual clients, that manages at least $50 million in AUM or generates at least $500,000 in annual revenue. Internal transitions of ownership were excluded. Data for 2017 are preliminary and will likely be revised upward as additional information becomes available.

Important Buyer Type Definitions

Bank/Trust. Includes any bank, trust company, credit union or savings institution.

RIA One-Off. Denotes an independent RIA firm initiating a one-time deal.

RIA Multi-Dealer. Relates to RIAs that originate as traditional advisory firms and then adopt routine transactions as part of a deliberate growth strategy, initiating at least three deals in a five-year span.

Investor Multi-Dealer. Includes typically private equity-backed firms, often referred to as aggregators or consolidators, formed with the primary purpose of making multiple accretive transactions.

Other. Denotes any other transacting party including broker-dealers, accounting firms or direct private equity investors.

For the First Time, RIA Multi-Dealers Rise to the Top

For the first time in the 17-year history of the FA Insight M&A database, RIA multi-dealers initiated more transactions than any other buyer type, accounting for 29% of deal activity. While RIA multi-dealers gained in prominence, the number of one-off RIA transactions fell by half. The result is that, combined, the overall share of RIA-initiated deals fell from 53% to 47% in 2017.

Figure 2
Transaction Share by Acquirer Type, 2017*

<table>
<thead>
<tr>
<th>Buyer Type</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIA Multi-Dealer</td>
<td>29%</td>
</tr>
<tr>
<td>RIA One-Off</td>
<td>19%</td>
</tr>
<tr>
<td>Investor Multi-Dealer</td>
<td>19%</td>
</tr>
<tr>
<td>Bank/Trust</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Percentages in chart do not sum to 100% due to rounding.
A growing number of RIA acquirers, often backed by external investors, are choosing to deliberately pursue merger and acquisitions as a primary growth strategy. Their success in gaining critical mass in both deal-making expertise and marketplace recognition as an attractive option for prospective sellers is driving the shift to RIA multi-dealer prominence. Concurrently, their growing prominence may be crowding out demand for RIA one-off deals.

In 2017, bank/trust buyers led more transactions than at any other time since 2007, a reflection of strong bank balance sheets and a continued interest to diversify into revenue streams unrelated to interest rates. Their 19% share of 2017 deals equaled investor multi-dealers.

**Total AUM Volume Up as Bigger Firms Are Targeted**

In contrast to the year’s decrease in total transactions, the volume of assets under management related to these transactions increased markedly. In 2017, total AUM of all acquired or merged firms summed to $113.5 billion—up 32% versus 2016 and the third-highest annual AUM deal total.

$113.5B

**Total assets transitioned in 2017—up 32% versus 2016**

$434M

**Median deal size in 2017—up 35% versus 2016**

The typical size of firms targeted for transactions increased as well, jumping 35% to a median of $434 million in 2017. The rise suggests that buyers are more selectively targeting larger firms, which also may have influenced the lower total number of deals announced in 2017. By specific size range, much fewer deals targeted firms in the under $100 million AUM range. Most merged or acquired firms were in the $100 million to $300 million range (favored by RIA multi-dealers) or beyond $1 billion in AUM (favored by investor multi-dealers).

**Figure 3**

**Total and Median AUM Related to Announced Transactions, 2007–2017**
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Historical Transaction Volume

Restrained by a slow fourth quarter, advisory firm transaction activity declined in 2017 for the second year in a row. The number of mergers or acquisitions in 2017 targeting independent advisory firms dropped to 70, compared with 80 in 2016. Still, the 2017 deal total is far and above the average 42 deals a year the industry saw between 2000 and 2014. In recent years, the number of RIAs with transaction experience increased dramatically, and with favorable market forces we should continue to see healthy volume into the future.

Figure 4
Transaction Announcements by Year, 2007–2017

Market Forces Suggest Deal-Making Will Intensify

While the total number of deals fell in 2017, AUM associated with these transactions remained high. This suggests that the more experienced deal-makers may be moving upstream, applying lessons learned from earlier transactions and now positioning to add value to even larger acquisitions.

The future looks bright for increased merger and acquisition activity within the financial advisory industry. This year is off to an impressive start with 12 transactions reported in just the first three weeks of January. A positive alignment of market forces, including new inflows of investor capital and aging firm founders looking for liquidity, holds out the promise of reigniting new levels of activity in 2018.