Q1 2024

M&A Trends

Wealth Advisory Market Update

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WEALTH ADVISORY M&A DEAL VOLUME HAS BEST Q1 ON RECORD

M&A activity in the wealth advisory space kicked off with a bang in Q1 with the highest number of announced deals compared to any historical first quarter. As expected, private equity buyers led the way. Learn more about the deal drivers and trends in Q1 and get an outlook on the remainder of 2024.

Merger and acquisition (M&A) activity in early 2024 could have been hampered by inflation, interest rates, or overall economic challenges — but it was not. **Deal activity in the first quarter of 2024 didn't disappoint**, delivering 84 announced wealth advisory M&A transactions in the U.S. — a record number for a first quarter. MarshBerry remains bullish about M&A activity for the remainder of 2024.

Registered investment advisors (RIAs) continue to take in capital from private equity (PE) firms, lenders, and a growing number of strategic minority investors who are drawn to the predictable cash flows, recurring revenues, and strong margins that RIAs offer. And sellers continue to play their part in propping up M&A activity. There is no shortage of quality RIAs to acquire — some seeking to monetize the asset they've spent a lifetime building, others opting to partner with a larger firm mid–career to gain access to scaled platforms and additional services and capabilities.

One of the themes MarshBerry noted last year was a flight to quality as buyers were adjusting for the increased cost of capital with greater requirements for organic growth on the part of acquired entities. **Specifically, higher valuations were bestowed to those firms with demonstrable, historically strong, market–adjusted organic growth rates.**

The other factor that could drive more sellers to the market in 2024 and into 2025 is the concern about potential tax changes. The expiration of the Tax Cuts and Jobs Act (TCJA), which would revert tax brackets to 2017 levels, as well as the potential capital gains tax rate changes following the Presidential election, may have profound impacts on net proceeds for those looking to sell their business.

M&A MARKET UPDATE

As of March 31, 2024, there were 84 announced wealth advisory M&A transactions in the U.S. This was the highest first quarter of any year on record and the second highest total quarter for any year. The 84 deals represent a 10.5% increase over the 76 deals announced in Q1 2023.

The first quarter of a year is often bolstered by deals that were unable to close by year end. This is a trend seen for quite some time. The question is, will activity remain flat, drop off, or increase throughout the year? **MarshBerry maintains strong optimism on what the rest of 2024 will bring.**

84

TOTAL ANNOUNCED WEALTH ADVISORY M&A TRANSACTIONS AS OF MARCH 31, 2024

THIS WAS THE HIGHEST FIRST QUARTER OF ANY YEAR ON RECORD AND THE SECOND HIGHEST TOTAL QUARTER FOR ANY YEAR.

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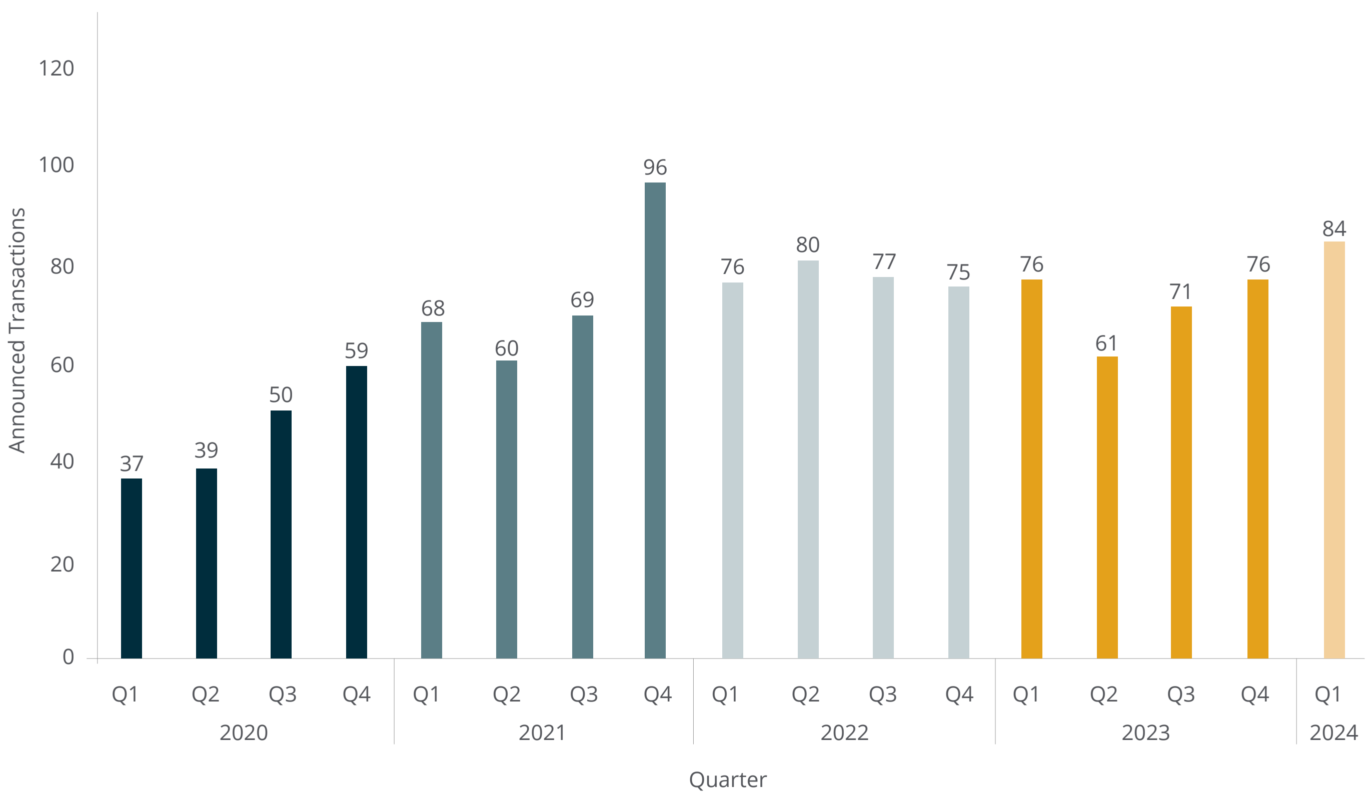

Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. Data as of 3/31/24.

STRONG M&A ACTIVITY DRIVEN BY BOTH BUYERS AND SELLERS

For Q1 2024, the top three buyers represented 14.3% of all activity and the top ten buyers represented 39.3% of the market. This is strong diversification as compared to other similar industries. **Deal activity with insurance brokers as buyers has remained around 10–15% of all transactions.**

Last year, notable public firms like Focus Financial and Avantax opted to go private, indicating a shift in investor focus towards long-term growth rather than short–term gains. Going private allows these firms to be more strategic in their acquisitions and also allows a little more privacy as compared to being under the microscope of the public market.

Seller activity is being fueled by two main factors: **the aging demographic of financial advisors and the growing trend of younger advisors seeking strategic partnerships to spur growth**. As many older advisors lack internal succession options, a significant amount of assets under management (AUM) will need new homes. Younger firm owners are recognizing that reinvesting in their businesses is crucial for growth, leading them to partner with established platforms.

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THE LEADER BOARD

New kids on the block seems to be the theme for 2024. Here are some highlights:

- Only three of the top ten buyers from 2023 (Focus Financial, Mercer, and Allworth) remain on the leader board through Q1 2024.
- Waverly Advisors and MAI Capital Management sit on top of the leader board with each firm having four transactions year–to–date (YTD). Both firms were also outside the top ten in 2023.
- Arax Investment Partners and Perigon Wealth moved up in rank from the 30s and 40s from last year. Each firm has completed three transactions YTD.
- Neither Diversify Advisor Network or Summit Financial were on the leader board last year and have made a grand entrance with three transactions each for YTD.
- Mariner Wealth made a sizeable jump up from the #15 position to #10.

Top 10 Buyer Transactions and Rankings

	2023 Transactions	2023 Ranking	YTD 2024 Transactions	YTD 2024 Ranking
Waverly Advisors	6	13	4	1
MAI Capital Management	4	17	4	1
Allworth Financial	7	9	4	1
Focus Financial Partners	14	2	4	1
Arax Investment Partners	1	46	3	5
Perigon Wealth Management	2	30	3	5
Mercer Advisors	9	4	3	5
Diversify Advisor Network	0	NR	3	5
Summit Financial	0	NR	3	5
Mariner Wealth Advisors	5	15	2	10

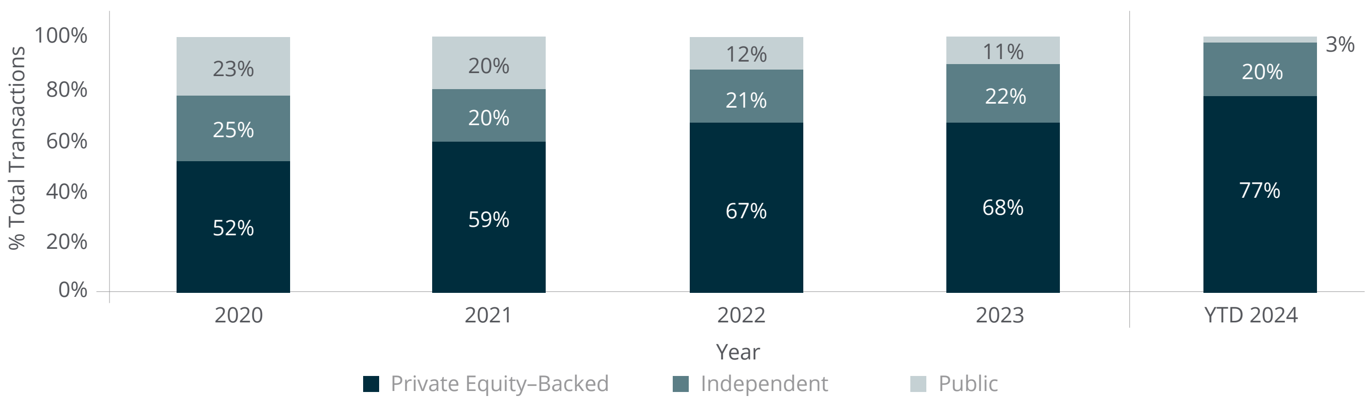
Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. Data as of 3/31/24. YTD: Year-to-Date.

PRIVATE EQUITY INCREASES DOMINANCE

PE backed RIAs made a significant jump as a percentage of total deal counts in Q1 2024, representing 77% of all announced deals. PE backed buyers have been steadily increasing their dominance and represent an ever–increasing amount of total deal volume.

The usual investment criteria are still relevant here. PE backed firms are drawn to the high business retention, potential for operational efficiencies, and most notably their recurring revenues.

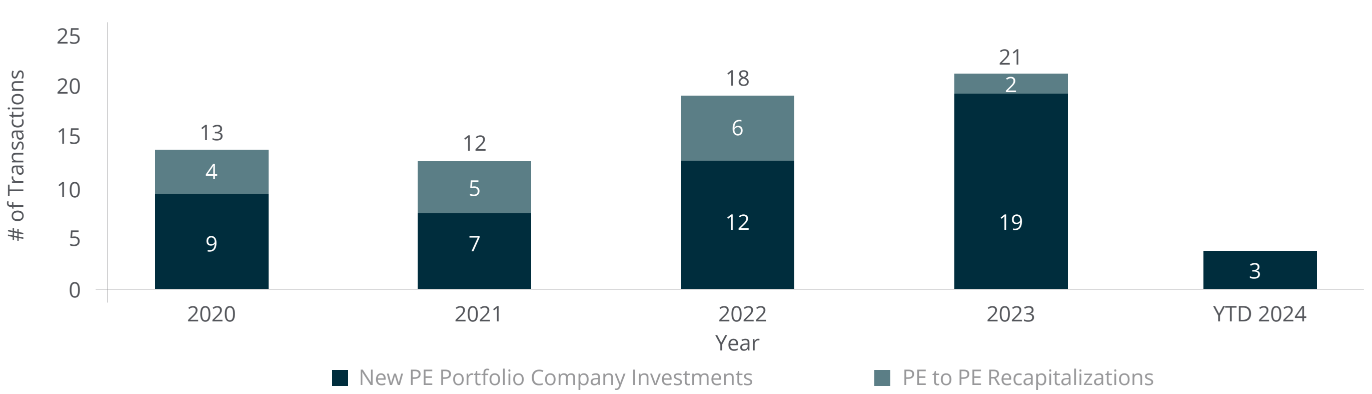
Wealth Buyer Transactions by Capital Type



Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. Data as of 3/31/24. PE: Private Equity; YTD: Year-to-Date.

As noted in prior reports, 2023 was a record-breaking year for PE backed investments. Through Q1 2024, there have been three new portfolio investments. In Q1 2023, there were seven PE investments in RIAs. Although on a YTD basis, 2024 is behind 2023, but this may not be indicative of market sentiment and MarshBerry remains bullish on our outlook. Peloton Capital Management made their first direct RIA investment into Trilogy Financial Services in March of 2024. Trilogy had roughly $4 billion in AUM. Peloton is also invested in the insurance brokerage firm Unison Risk Advisors.

Private Equity (PE) Activity



Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. YTD: Year-to-date. Data as of 3/31/24.

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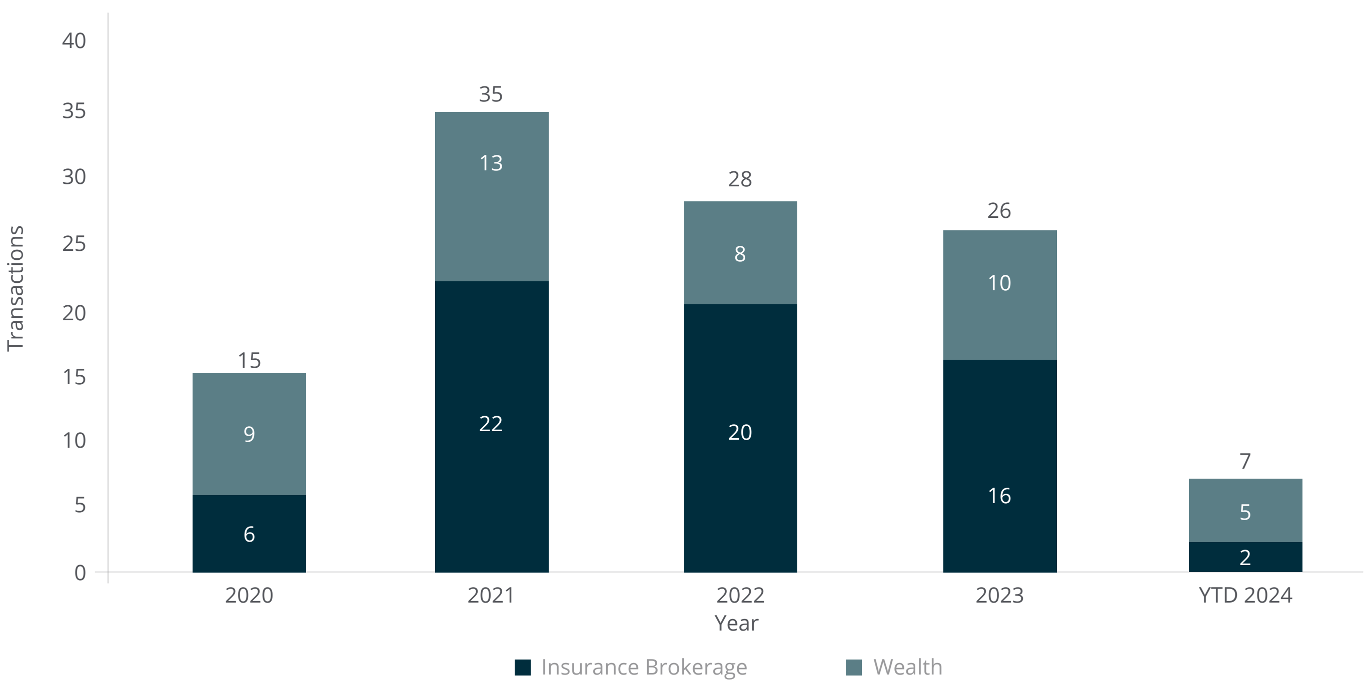
RETIREMENT INDUSTRY M&A UPDATE

Although retirement transactions are not the largest component of wealth M&A deals, they remain an important part. The trend in total retirement deals has been a decline over the past few years but there is still strong interest given some of the inherent synergies they have with certain buyers, such as insurance brokerage firms. Due to fee compression, retirement firms need to scale in order to grow their firms and operate their businesses efficiently. As seen across all industries, it is becoming increasingly onerous for the smaller firms to compete with the larger platforms due to pricing power and back–office support.

Retirement Transactions by Buyer Type



Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. Data as of 3/31/24. Note: MarshBerry data represents the World Insurance Associates acquisition of Pensionmark and its multiple affiliates in March 2022 as a single transaction.

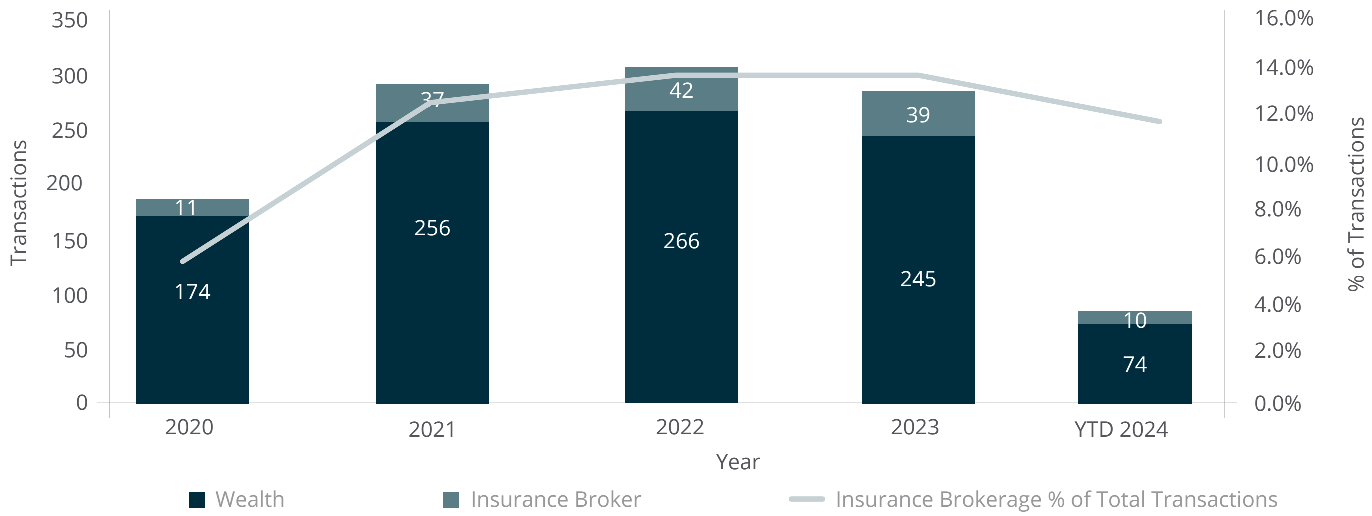
INSURANCE BROKERAGE INSIGHTS

Transactions in which insurance brokerages were buyers increased from 5.9% of total deal activity in 2020 to 11.9% as of Q1 2024. This percentage of insurance brokerage activity has consistently been between 11.9% to 13.7% since 2021. This indicates a sustained appetite as insurance brokerage firms recognize the importance of offering private wealth solutions not only to high–net–worth insurance clients but also to participants in retirement plans. This helps provide one–stop shops for comprehensive solutions.

11.9%

OF TRANSACTIONS WHERE MADE BY INSURANCE BROKERAGES

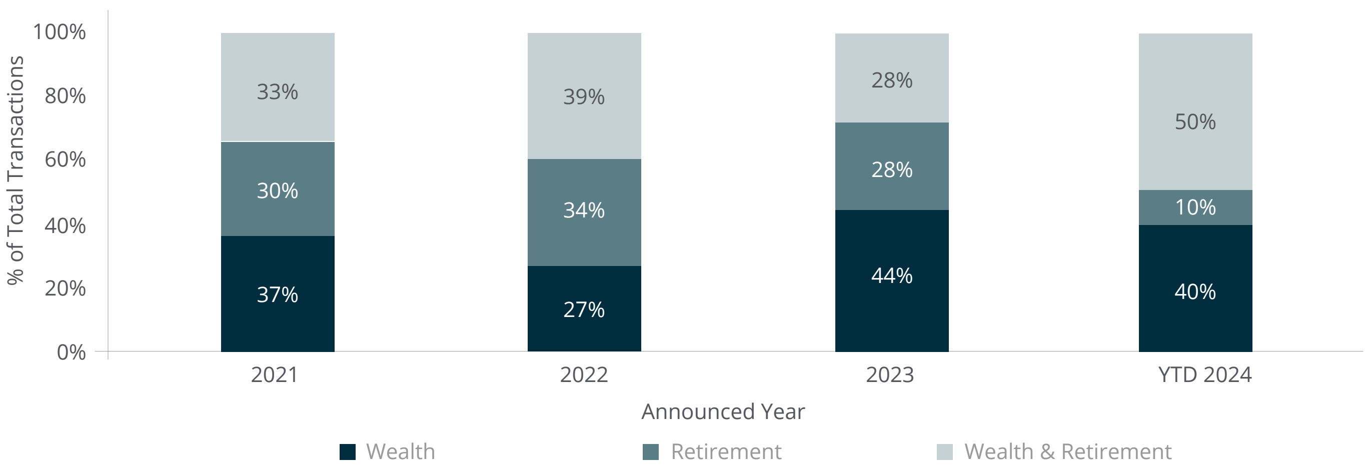
Wealth Management vs. Insurance Brokerage Buyers



Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. As of 3/31/24.

Of the ten transactions completed thus far in 2024 by insurance brokers, nine of the targets (90%) are firms that offer wealth advisory services — which is a significant increase compared to full year 2021 (70%), 2022 (66%) and 2023 (72%). This is consistent with the rise in full-service firms that sold — going from 28% in 2023 to 50% in Q1 2024. Furthermore, this indicates that there is a premium for firms that can do both retirement and wealth, offering a bridge between the two business lines.

Insurance Brokerage Acquisitions (Breakout by Type of Target)



Source: S&P Data, Fidelity, and MarshBerry Proprietary Database. YTD: Year-to-Date. As of 3/31/24.

Through the provision of extended wealth services, insurance brokerage firms are adopting a holistic risk management strategy, handling both assets and liabilities throughout the client's life stages, thereby strengthening client relationships.

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NOTABLE TRANSACTION

On March 1, 2024, **Focus Financial Partners Inc. (Focus)** announced a definitive agreement to merge two of its partner firms — GW & Wade, LLC and The Colony Group, LLC. The merger combines GW & Wade's $10.4 billion regulatory AUM with Colony's $21.1 billion AUM. GW & Wade, known for its expertise in tax planning, financial planning, and asset management, joined Focus in 2007. Principals Roger Wade and Tim Pinch expressed excitement about joining forces with Colony, citing shared values and a commitment to client success. Michael Nathanson, CEO of The Colony Group and President of Focus, highlighted the importance of enhancing services for clients and the bright future ahead as GW & Wade becomes part of Colony. Post-merger, GW & Wade will operate as GW & Wade at The Colony Group.

MarshBerry's insight: This marks Focus' second intra–partnership merger as part of its hub strategy. MarshBerry has seen this hub and spoke strategy before with the insurance brokerage giant HUB International. This indicates that as "hubs" develop and fill out, there will be increasing demand for firms located in hubs that either need to be created or further developed. All signs point to a strong sellers' market.

WHAT DOES THE REST OF THE YEAR HAVE IN STORE?

MarshBerry maintains a bullish sentiment on the prospect of a record M&A year in 2024. As predicted, the relatively small decrease in total deals in 2023 was not going to set the precedent for 2024. The catalysts for higher deal volume seen at year end are starting to ring louder.

2024 is an election year, which is raising concerns about potential changes in the government and its tax policies. Additionally, after a period of rising interest rates, there has been notable signals of stability in the near future. Private equity, with committed capital that needs to be deployed, remains a key source of funding for RIAs. Additionally, the ever–present issue of aging advisors considering their future might motivate firm owners to seek strategic partnerships ahead of the uncertainties around taxes in 2025.

The combination of these elements, reinforced by a strong Q1, suggests the possibility of a record–breaking year for M&A in 2024. MarshBerry will continue to stay vigilant, keeping track of and reporting on the factors that could influence M&A activity in 2024 and beyond.

If you have questions about Today's ViewPoint or would like to learn more about how MarshBerry can help your firm determine it's path forward, contact us.

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