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Wealth Management: The Deal Magnet

A Discussion of The Wealth Management Industry and Why the Attraction Is Only Getting Stronger

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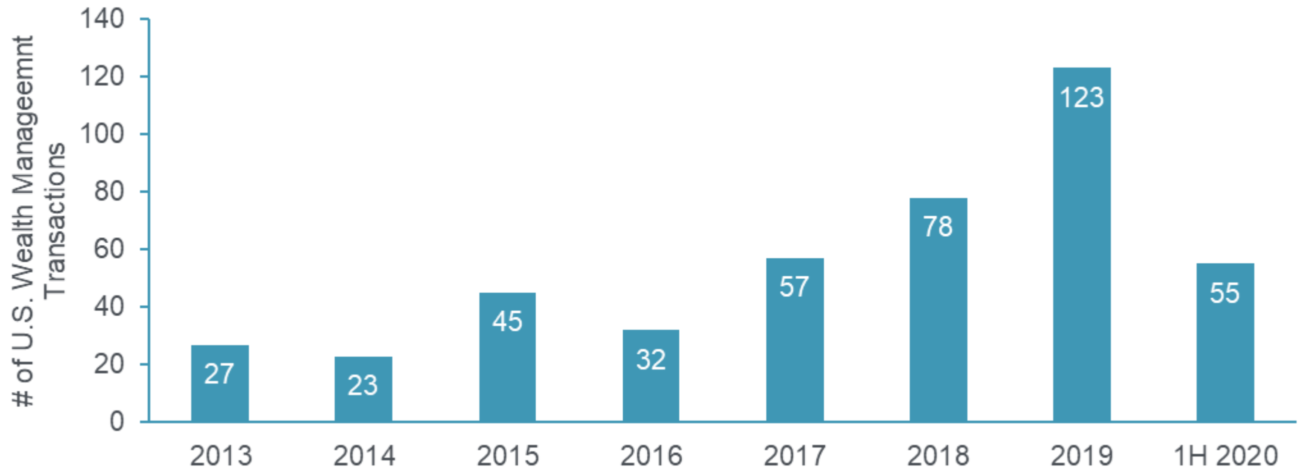
Table of Contents

Introduction

Since 2017, we have witnessed an unprecedented rise in merger and acquisition activity in the wealth management industry. A decade-long bull market coupled with compelling industry and business dynamics have created a massive flow of buyers and sellers looking to partner. Despite the COVID-19 pandemic, the backdrop for transaction activity in the industry remains strong. Competition amongst an ever-growing group of buyers, several of which are backed by private equity sponsors, has pushed valuations to new heights and created a virtuous circle of M&A activity.

NUMBER OF U.S. WEALTH MANAGEMENT TRANSACTIONS AND TRANSACTED AUM



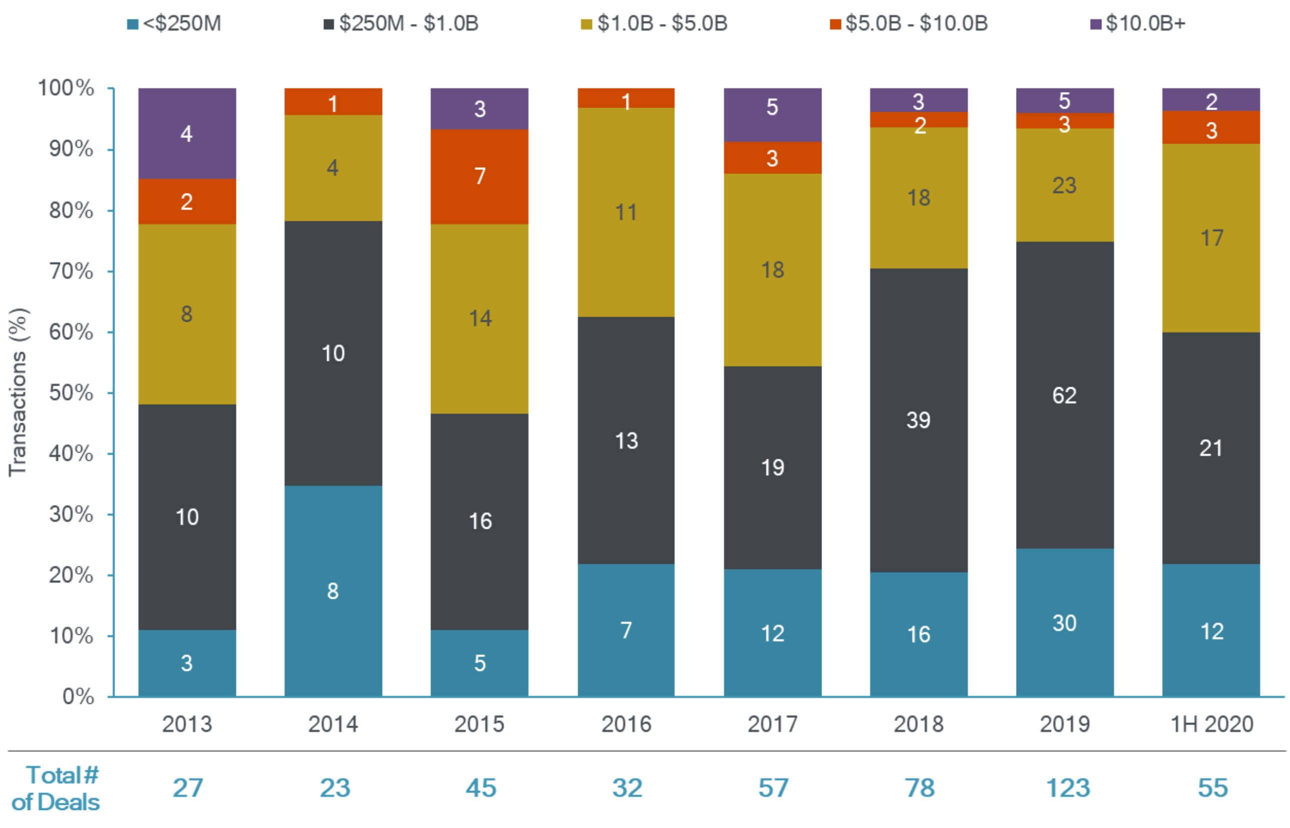
Transacted AUM ($B)	$155	$23	$175	$43	$273	$426	$251	$169

Source: Piper Sandler; counts only transactions with target AUM greater than $100M

Since 2017, deal volume in the wealth management sector has dwarfed the activity in the prior years and has continued to reach record levels. In 2019, 123 transactions occurred in the U.S. wealth management space, 58% higher than 2018 and more than double the volume of deals in 2017. Activity has been widespread involving buyers and sellers of all sizes and models, with the greatest amount of selling activity occurring amongst wealth managers with less than $1B in AUM, reflecting the composition of the sector itself which remains dominated by smaller, independently-owned firms.

One of the primary factors behind this substantial increase in deal volume has been the increased presence of private equity in the sector. While private equity sponsors have historically been investors in the space, the number of private equity firms with significant scale ambitions has never been greater – both as acquirers of larger, platform businesses as their entry point into the sector and follow-on acquisitions to further scale those platforms. In total, we count 20 different platform transactions by private equity sponsors since 2015. Those platforms in turn accounted for 55% of the total deal activity in 2018 and 2019. Independently-owned wealth management firms which have chosen to chart their own M&A path as buyers in recent years placed a distant second behind private equity-backed platforms, accounting for approximately 20% of the deal volume over the same 2018-2019 period. Lastly, strategic buyers including banks, broker dealers, traditional asset managers and insurance companies have continued to play a role in the activity, albeit a minor one as they have found themselves frequently outbid in the high-flying market.

U.S. WEALTH MANAGEMENT TRANSACTIONS BY TARGET AUM



Source: Piper Sandler; counts only transactions with target AUM greater than $100M

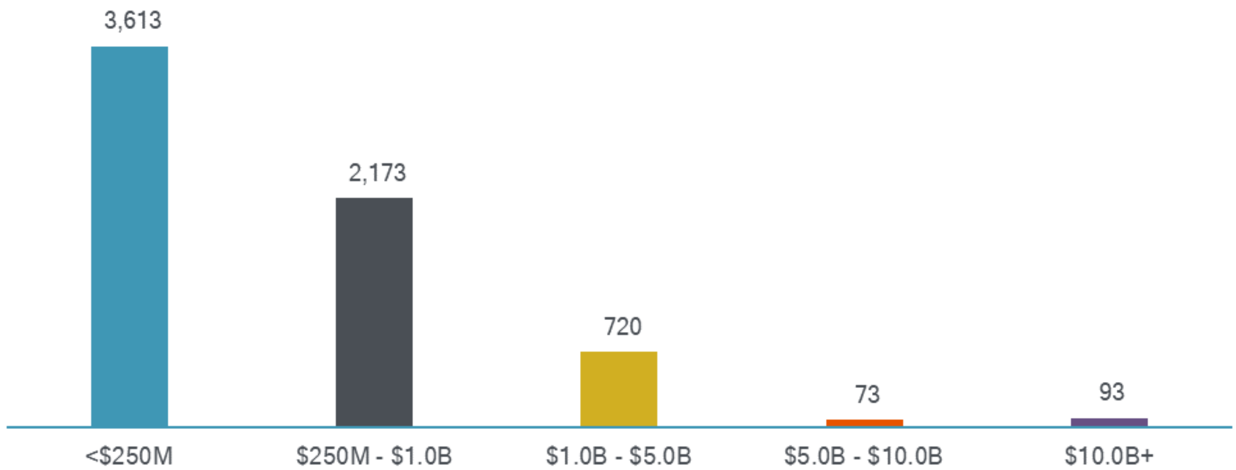
In this report, we explore the current state of the wealth management industry and the backdrop for its thriving M&A market, while shedding light on the universe of buyers, notable buyer acquisition models and valuation. Lastly, we share our views for the significant consolidation that we expect will continue well into the future.

The Shape of the Industry Today

A Highly Fragmented and Localized Industry

Wealth management is a highly fragmented industry that is geographically and regionally focused. As a result, the industry can be difficult to accurately size and succinctly define from the broader universe of Registered Investment Advisers (“RIAs”). SEC data shows that there are currently 13,000 registered investment advisers. However, a large portion of those 13,000 RIAs focus on managing assets for an institutional client base and/or for retail clients, either directly or through intermediaries. By focusing only on RIAs that (i) serve a client base predominantly comprised of high net worth/wealthy individuals and (ii) primarily manage assets on a discretionary basis, we can identify a subset of 6,600+ RIAs. These RIAs, representing approximately 50% of the total, collectively advise on a sizable $9.8T in regulatory assets under management. When viewing this subset by size of RIA, the fragmentation of the advisor base becomes clear with nearly 5,800 firms, or approximately 90% of the subset noted above, managing under $1B in client assets.

NUMBER OF SEC-REGISTERED WEALTH MANAGERS BY AUM SEGMENT[1]



Source: U.S. Securities and Exchange Commission, Piper Sandler Analysis

The industry's fragmentation is driven by a few key factors:

Low Barriers to Entry – Launching a wealth management firm, particularly compared to other financial services businesses, has historically entailed low start-up costs with little upfront capital and minimal regulatory requirements. In addition, the availability of third-party middle and back-office service providers has permitted entrepreneurial advisors to readily "rent" the services that they need to run their businesses. This ability to outsource alleviates one of the key frictions of starting a new RIA and liberates advisors to focus their primary efforts on sourcing and servicing clients as their business grows.

Local Focus – Wealth management firms are typically locally-focused in a certain city or area. Client bases are developed organically, mainly via existing client referrals, local marketing campaigns and seminars, and referrals from local centers of influence including prominent members of the business community and other professional advisors such as accountants and lawyers. Expansion beyond an RIA's local market can require significant costs and senior management resources, ultimately with an unpredictable outcome. As a result, many RIAs choose the more predictable path of further penetrating their local market.

Shift to Independence – The backbone of many wealth management firms is the close personal relationship developed between the advisor and his/her clients – a relationship often strengthened over many years. This goodwill built up between client and advisor often exists at the personal level, and in some cases outweighs any connection a client may have with the advisor's firm. This close client relationship creates a greater portability of client base, giving advisors greater flexibility, confidence and freedom to migrate to smaller independent RIAs or to launch their own firm. The migration has often been at the expense of the wirehouses and regional broker dealers, which have frustrated their advisor base with frequently changing pay grids that misalign incentives and onerous compliance regimes.

Facilitation of Technology – The technology options that have become available to RIAs over the past decade have provided a strong backdrop to support the shift to independence discussed above. As a precursor, technology dramatically decreased the dependence advisors previously had on larger institutions. In fact, the immense scale and infrastructure of large institutions, which was once their

[1] U.S. Securities and Exchange Commission. Includes only SEC-Registered Investment Advisers that have discretion over 50% of assets and serve a client base made up of greater than 50% private clients.

biggest value proposition for advisors, caused them to fall behind their more nimble competitors. Among smaller firms and independent RIAs, approximately 30% outsource all back office functions while 60% outsource some portion of those functions[2], highlighting the broad acceptance of outsourcing to manage meaningful elements of day-to-day operations.

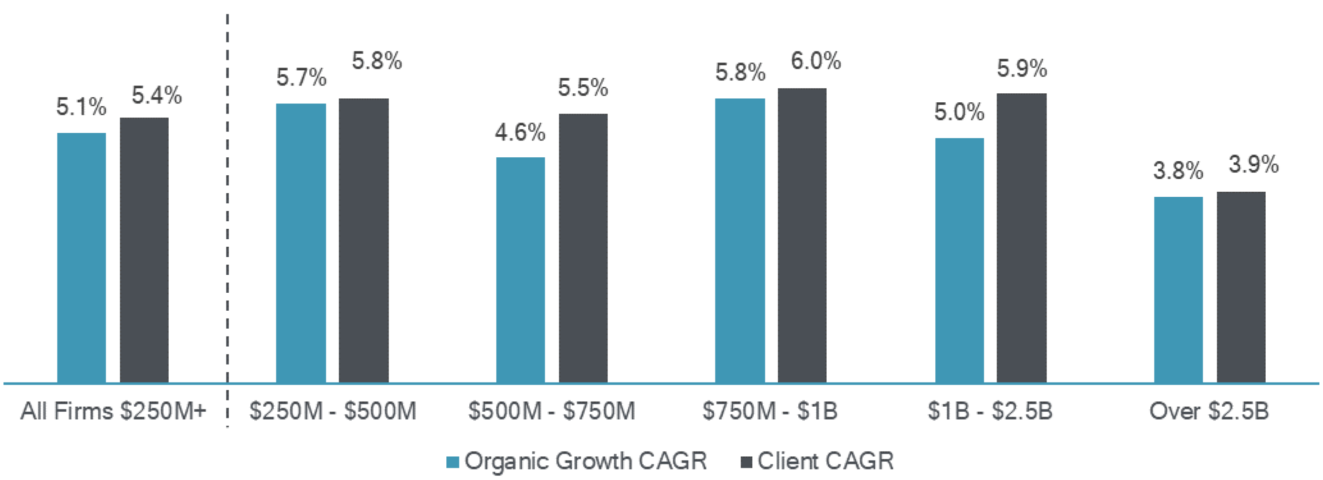
Compelling Business Dynamics

Beyond the conducive industry backdrop, wealth management firms exhibit highly attractive characteristics which continue to drive buyer interest in the space – thus propelling M&A activity.

Strong Underlying Fundamentals – The wealth management industry, unlike other sectors of the investment management industry, has long held fundamental strengths, which we expect will endure well into the future, from which businesses naturally benefit and thus have built strong franchises. Chief among those fundamentals is underlying client growth –both in the number of high net worth individuals ("HNWI") and their overall wealth. According to Capgemini, the North American HNWI population exceeded 6.9M as of 2019, which represents a 7% increase from 2018, and a 47% increase from 2013. In addition, their overall wealth increased to greater than $21T in 2019 from ~$15T in 2013, a growth rate of over 45%. Beyond growth in their client base, wealth management firms have experienced fee compression to a much lesser extent than the broader investment management sector despite low-cost entrants to the space such as robo-advisors and the like. Unlike the retail mutual fund space, for example, which has seen 14% fee compression over the past 10 years, wealth managers have not faced the same pressures, due in large part to the strength and duration of their client relationships and the wide array of services they typically provide.

Attractive, Consistent Organic Growth – Typical wealth management firms have steady, modest organic growth given the local nature of their businesses, their dependence on word-of-mouth, local centers of influence ("COIs"), and referrals from existing clients. On average, firms with $250M or more in client assets reported five-year organic growth and client CAGRs of 5.1%, and 5.4%, respectively. The growth, while modest, has proven to be highly consistent across market cycles. Additionally, portfolio investment returns provide incremental AUM increases with few incremental costs, effectively creating a double-digit annual growth rate when coupled with organic growth from client flows.

2014 – 2018 ORGANIC GROWTH[3]

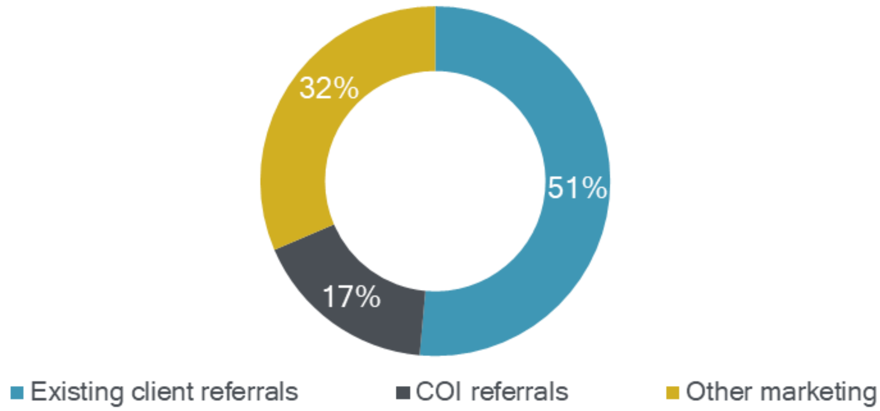


Source: Charles Schwab

[2] Northern Trust. "External Investment Management Survey." 2016
[3] Charles Schwab. "RIA Benchmarking Study." 2019

The primary source of organic growth is referrals from existing clients which, on average, contributes 51% of an advisor's new assets each year. Other marketing efforts, such as marketing campaigns, seminars and general solicitations are the second largest contributor of organic growth, representing 32%. However, the scope of these efforts should be kept in perspective. COI referrals, while only contributing 17% to total organic growth figures, remain an important component of a wealth manager's organic growth strategy, with successful client outcomes serving only to strengthen the relationship with those COIs and encourage future referrals.

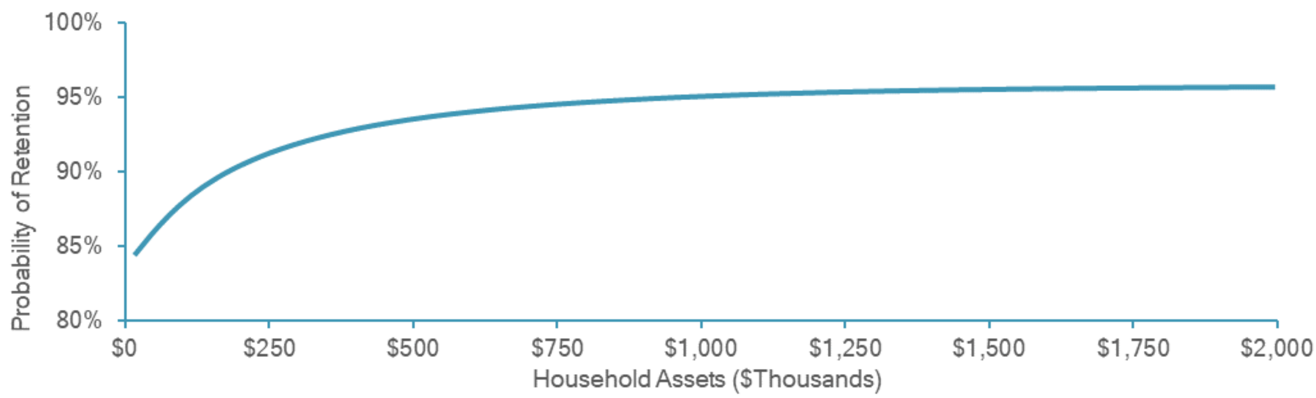
SOURCES OF ORGANIC GROWTH[4]



Source: Charles Schwab

High Client Retention – Clients of wealth management firms are typically extremely loyal and span multiple years, with industry annual client retention rates well in excess of 90%. As clients continue to accumulate wealth, their financial lives become more complicated and the need for professional advice only increases. As the relationship grows, clients utilize other services such as financial planning, tax planning, insurance brokerage and estate & trust services. These value-added services further reinforce trusted and deeply personal relationships with clients and contribute to strong retention rates, as the process of making a change can be extremely involved and complex. As shown below, client retention rates increase with level of wealth, as clients with investable assets in excess of $1M have retention rates greater than 95%. This 'stickiness' of clients creates an attractive stable and predictable revenue stream.

CLIENT RETENTION AND HOUSEHOLD ASSETS[5]



Source: PriceMetrix

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[4] Charles Schwab. "RIA Benchmarking Study." 2019

[5] PriceMetrix. "Stay or Stray: Putting Some Numbers Behind Client Retention."

Wealth Management M&A Market

Broad Universe of Buyers

Wealth management businesses have long generated interest from a diverse group of buyers. All are drawn to the industry for its strengths as discussed above, though in addition each buyer type has distinctive views which generally headline their interest in the space.

<u>Wealth Managers</u> – Encompassing independent wealth managers, private equity-backed wealth managers, and wealth managers that sit within larger financial institutions, these firms have been the most prolific acquirers in the space. Independent wealth managers, while being highly attractive acquisition targets themselves, typically focus on the numerous opportunities that exist on the lower end of the size spectrum to integrate within their businesses and add scale. Wealth managers with private equity backing benefit greatly from the deep pockets and extensive deal making experience of their financial backers. Sponsors can provide assistance and additional resources to develop and institutionalize the M&A strategy at a wealth manager, ultimately expanding both the array and volume of opportunities a firm may consider. Wealth managers that sit within larger financial institutions have been the catalyst behind some of the most publicized deals in recent years, typically focused on large opportunities that meaningfully move the needle. Each of these groups pursue acquisitions as a way to capture economics of scale and build market-leading franchises.

<u>Banks</u> – While one of the original buyer groups of wealth management firms, banks have seen their share of wealth management deals diminish in recent years as increased competition has driven up valuation for high-quality wealth businesses in attractive geographies. Banks, highly interested in increasing contribution from fee-based revenues and the opportunity to cross-sell banking products to wealth management client bases, must balance their interest with the regulatory capital ratio impacts brought on by goodwill-heavy transactions.

<u>Broker Dealers</u> – Broker dealers, while typically focused on recruiting individual advisers and adviser teams away from competitors, are also active acquirers of wealth management firms. Broker dealers often look to acquire hybrid, or dually-registered, targets, as the target is able to retain certain revenue streams, such as mutual fund trailers and commissions, that would otherwise be lost if they were acquired by a traditional wealth manager. In addition to achieving greater scale in their wealth management business lines, broker dealers are highly attracted to the recurring fee-based revenues associated with wealth managers.

<u>Financial Sponsors</u> – Financial sponsors have recently driven significant M&A activity in the space, primarily by backing larger, at-scale wealth management firms and aggressively acquiring smaller businesses to roll them into the platform. Sponsors look to build businesses increasing both bottom line growth and expanding valuation potential, ultimately supporting a strong exit into the hands of a fellow financial sponsor, who will look to continue the same growth approach, or a strategic owner.

Buyer Acquisition Models

For owners of wealth management firms, there are an array of buyer acquisition models to consider when selling a business. The models vary in the degree of integration, ownership structure and governance – ultimately leading to a different experience in post-transaction day-to-day operations for acquired firms. On one end of the spectrum, buyers employing a “multi-boutique” business model limit the integration of acquired firms, allowing them to retain equity, their own branding and a certain degree of governance and autonomy. At the other end of the spectrum is the fully integrating approach in which a buyer combines acquired firms with the buyer and offers one homogenous wealth management platform and brand to clients. In addition, a growing number of minority-stakes buyers have emerged which are attracted to the steady cash flows of the wealth management sector. This group typically acquires minority economic interests in target firms and does not have any control rights beyond certain minority protections.

Within each acquisition model, acquirers have their own preferences and thus in practice the models will not be exactly the same. Universally, buyers will expect key employees of the target firms to enter into employment agreements with non-compete / non-solicit provisions. The specific terms will vary by buyer, but will include multi-year seller commitments and may have added terms relating to any retained equity, particularly in regard to future liquidity.

COMPARISON OF ACQUIRER MODELS

	Integrating	Multi-Boutique	Minority Financial
Percent Acquired	• 100%	• 40-70%	• Typically <25%
Support for Business Growth	• Leverage acquirer's scale and resources • Centralize marketing functions at the broader firm level • Enable advisors to focus exclusively on new and existing clients • May assist directly with lead generation	• Access to capital and expertise for M&A opportunities • Scale benefits, including pricing power for technology and access to investments • Organic growth best practices and coaching initiatives	• Informal strategic guidance as desired • Ad hoc value add • Potential opportunity to leverage for M&A financing
Degree of Investment Autonomy	• Expected that investment decisions align with overall firm philosophy • Investment function can be centralized to varying degrees with the acquirer	• Largely agnostic on investment process and strategy, subject to compliance oversight • No consolidation of investment function • Portfolio management remains at the firm level	• Retain complete control of investment process and strategy
Governance	• Largely expected to conform to standard operating practices of the acquirer	• Retain operational control of their business • Acquirer may be involved in budgeting • Acquirer has approval rights over acquisitions and large capex decisions	• Retain operational and voting control Acquirer has some minority rights aimed to protect principal
Brand Retention	• One brand, fully integrated into existing platform	• Typically retain their brand unless acquired by existing boutique	• Brand is unaffected
Integration of Middle and Back Office	• Complete integration of middle and back office	• Typically no integration, continue to manage middle and back office functions	• No integration

Source: Piper Sandler

Integrating Model – Integrating acquirers leverage their strong, well-branded presence and fully-developed platform to attract acquisition targets. Following a transaction, acquired firms are fully integrated into the acquirer, including taking on the acquirer's brand, though the acquired advisors typically maintain their primary roles of client relationship management. Nearly all the business functions of the acquired firm are consolidated into the parent, including marketing and new client/lead generation in some cases. This centralization of middle and back office functions enables advisors to focus on their clients and to free themselves from day-to-day administrative responsibilities.

Firms operating an integrating model generally have a clearly defined investment management approach, which is typically open architecture or hybrid (as described above). While complete compatibility is typically not a day one requirement, the intention is for acquired firms to conform to the investment management approach of the larger parent in order to reinforce the single brand and present a consistent experience across clients. Integrating acquirers will often initially pursue a "do no harm" approach to integration in order to minimize the impact to acquired firms' clients. Generally speaking, the more different the business model at a given target in relation to the acquirer, the more gradual the integration of that target into a given buyer.

A defining characteristic of the integrating model is a transaction structure whereby the buyer acquires 100% of the seller's equity, in contrast with the multi-boutique model in which sellers retain equity. In order to align incentives, sellers will often have incentive compensation post-transaction that rewards continued growth of their books of business and may have the opportunity to participate in the upside of the parent company through real or phantom equity programs. Among acquirers, the integrating model is the most common today as it provides the greatest scale benefits to the acquirer and facilitates a uniform delivery to the client base across advisors.

SUMMARY OF ACTIVE INTEGRATING ACQUIRERS

Note: Includes select acquirers that have completed a minimum of two transactions in the last three years

Integrating Model			
Firm	Approx. AUM	Financial Backer	Select Firm Acquisitions
allworth Financial	$8B	Parthenon Capital	Capstone Capital ($100M); Houston Asset Management ($450M); RAA ($2.8B); Siena Wealth Management ($250); HBP Retirement Group ($235M)
Atlantic Union Bankshares	$4B	Public (NASDAQ: AUB)	Outfitter Advisors ($400M); Dixon, Hubard, Feinour, & Brown ($600M)
BEACON POINTE	$10B	Abry Partners	Ferrell Wealth Management ($460M); Heller Wealth Advisors ($387M); TPW Financial ($300M)
Brown ADVISORY Thoughtful Investing.	$64B	n/a	Signature Family Wealth Advisors ($4.3B); Meritage Capital ($1.0B); Highmount Capital ($2.3B)
CAPTRUST	$45B	GTCR	Lakeside Wealth ($1.6B); Welch Hornsby ($5.5B); Fountain Financial ($654M); Boston Advisors WM ($1.5B); South Texas Money Management ($3.7B)
CARSON	$12B	Long Ridge Equity Partners	Cadwell Wealth ($182M); Ruggie Wealth Management ($566M); Spectrum Management Group ($575M); Pinnacle Financial Group ($1.1B)
CERITY PARTNERS	$25B	Lightyear Capital	Sullivan & Serwitz Investment Advisors ($1.0B); Executive Monetary Management ($3.0B); Kartsten Financial Services ($500M)

Creative Planning	$45B	General Atlantic	Lenox Wealth ($600M); Thun Financial Advisors ($600M); Starfire Investment Advisors ($560M); Sunrise Advisors ($700M); Coe Financial ($126M)
Cresset	$10B	n/a	PagnatoKarp ($2.3B); True Capital Management ($1.2B); Cypress Wealth Advisors ($500M); Evanston Advisors ($500M)
fti Fiduciary Trust International	$29B	Franklin Resources (NYSE: BEN)	Pennsylvania Trust Company ($4.0B); Athena Capital Advisors ($6.0B)
Fifth Third Bank	$49B	Public (NASDAQ: FITB)	Franklin Street Partners ($2.2B); The Retirement Corporation of America ($461M)
First Midwest Bank	$8B	n/a	Northern Oak Wealth Management ($800M); Premier Asset Management ($550M)
Kestra Financial	$34B	Warburg Pincus	Retirement Wealth Specialists ($400M); Vector Wealth ($1.1B); Beacon Financial ($800M); Believeland ($400M); Hickory Asset Management ($173M)
LPL Financial	$375B	Public (NASDAQ: LPLA)	E.K. Riley Investments ($2.0B); Lucia Securities ($1.5B); Allen & Company of Florida ($988M)
Mariner Wealth Advisors	$33B	n/a	Wealth Health ($400M); Snow Creek Wealth ($300M); SMS Capital ($110M); Singer Xenos ($1.3B); Authent Advisors ($285M)
Mercer Advisors	$16B	Oak Hill Capital	Summit Wealth ($130M); M.J. Smith & Associates ($910M); ClearRock Capital ($557M); Argosy Wealth Management ($330M); First Ohio Planning ($350M)
Peapack-Gladstone Bank	$6.4B	Public (NASDAQ: PGC)	Point View Wealth Management ($300M); Lassus Wherley & Associates ($500M); Quadrant Capital Management ($400M)
Rockefeller Capital Management	$19B	Viking Global	Financial Clarity ($2.3B); Greer Anderson Capital ($110M)
Savant	$7B	The Cynosure Group	Huber Financial ($1.6B); Kingston Wealth Management ($150M); D3 Financial Counselors ($290M); Orion Capital Management ($150M)
Silvercrest Asset Management Group	$21B	Public (NASDAQ: SAMG)	Cortina Asset Management ($1.7B); Neosho Capital ($168M); Jamison Eaton & Wood ($1.0B); Ten-Sixty Asset Management ($1.9B); Milbank ($500M)
Wealth Enhancement Group®	$17B	TA Associates	JOYN Advisors ($1.3B); BPU Investment Management ($517M); RCL Advisors ($1.4B); AEPG ($1.0B); Planning Solutions Group ($683M)

Source: Piper Sandler

Multi-Boutique Model – The multi-boutique model targets large independent wealth managers, particularly those with business and operational skills that do not necessarily require being part of a larger firm, but can generate organic and inorganic future growth. The acquired firm generally maintains separate branding and operations post-transaction. From the perspective of the acquired firms' clients there is generally minimal or no impact, which is often an appealing aspect for sellers.

The extent that business processes are provided by a central platform at the parent company varies by buyer. Some acquirers standardize only the minimum level of business processes across their acquired firms – consisting of back-office functions such as payroll, cash management, firm-wide insurance, compliance and financial reporting – and provide support for other functions such as human resources and legal operations. Other acquirers leave it to the acquired firms to determine their preferred degree of operational integration and support from the parent. While some models provide a full suite of proprietary technology, others are technology-agnostic but can provide scale benefits such as enterprise pricing on middle and back-office technology solutions.

Acquirers operating a multi-boutique business model often acquire 40-70% of the equity of the sellers. This provides a strong alignment of interest between seller and buyer as sellers remain materially staked in the business while buyers are able to secure a meaningful ownership position. The portion of earnings retained by the management of the target firm provides selling shareholders with distributions that will fluctuate along with the profitability of the firm, and which can be sold to the next generation of management when the current generation retires.

SUMMARY OF ACTIVE MULTI-BOUTIQUE ACQUIRERS

Multi-Boutique Model			
Firm	Approx. AUM	Financial Backer	Select Firm Acquisitions
CI Financial	$132B	Public (TSE: CIX)	Balasa Dinverno Foltz ($4.5B); Congress Wealth ($2.3B); Cabana Group ($1.1B); One Capital ($1.6B); Surevest Wealth ($370M)
FOCUS FINANCIAL PARTNERS	$200B	Stone Point / KKR / Public (NASDAQ: FOCS)	MEDIQ Financial (n/a); Nexus Investment Management ($2.2B); Williams, Jones & Associates ($7.7B); Escala Partners ($3.5B); Prime Quadrant ($3.4B)
HIGHTOWER	$57B	Thomas H. Lee Partners	Teak Tree Capital Management ($600M); Frontier Investment Management ($3.3B); Schultz Collins ($1.0B); Lexington Wealth ($1.0B); Green Square Wealth Management ($2.6B)

Source: Piper Sandler

Minority Financial Acquirer Model – Minority acquirers primarily look to participate in the cash flow of the acquired businesses. Generally, these firms are financial buyers that leave control in the hands of the sellers and typically provide less support relative to multi-boutique and consolidating acquirers. The acquired stakes are typically under 25% to avoid triggering a regulatory change-of-control event which would require soliciting consents from the target's clients. Additionally, sellers generally value that, depending on the ownership structure, minority investments may not require disclosure on the firm's Form ADV.

The acquisition of the interests can be structured as either a revenue share or profit share and may include terms that ensure protection of invested capital given the passive nature of the interest. The minority model provides sellers with the option to receive cash and diversify their net worth while also retaining control of their business. Consideration received in a transaction can be used to provide liquidity to the selling owners, help effectuate equity transfers to the next generation, make additional investment into the business and pay down debt.

Predictably, retention of control and future upside is the defining characteristic of a minority sale. While some minority investors are strictly interested in receiving quarterly distributions, others may view a minority investment as a way of getting a foot in the door in the wealth management sector. In those instances, minority transactions may be structured to provide a path to greater future ownership for the acquirer, and in turn, future liquidity for the sellers.

Acquirers among this group include specialist investors focusing specifically on the sector as well as private equity firms that are interested in making an investment in the space but with a target whose strategy is not centered on being a platform for consolidation.

SUMMARY OF ACTIVE MINORITY FINANCIAL ACQUIRERS

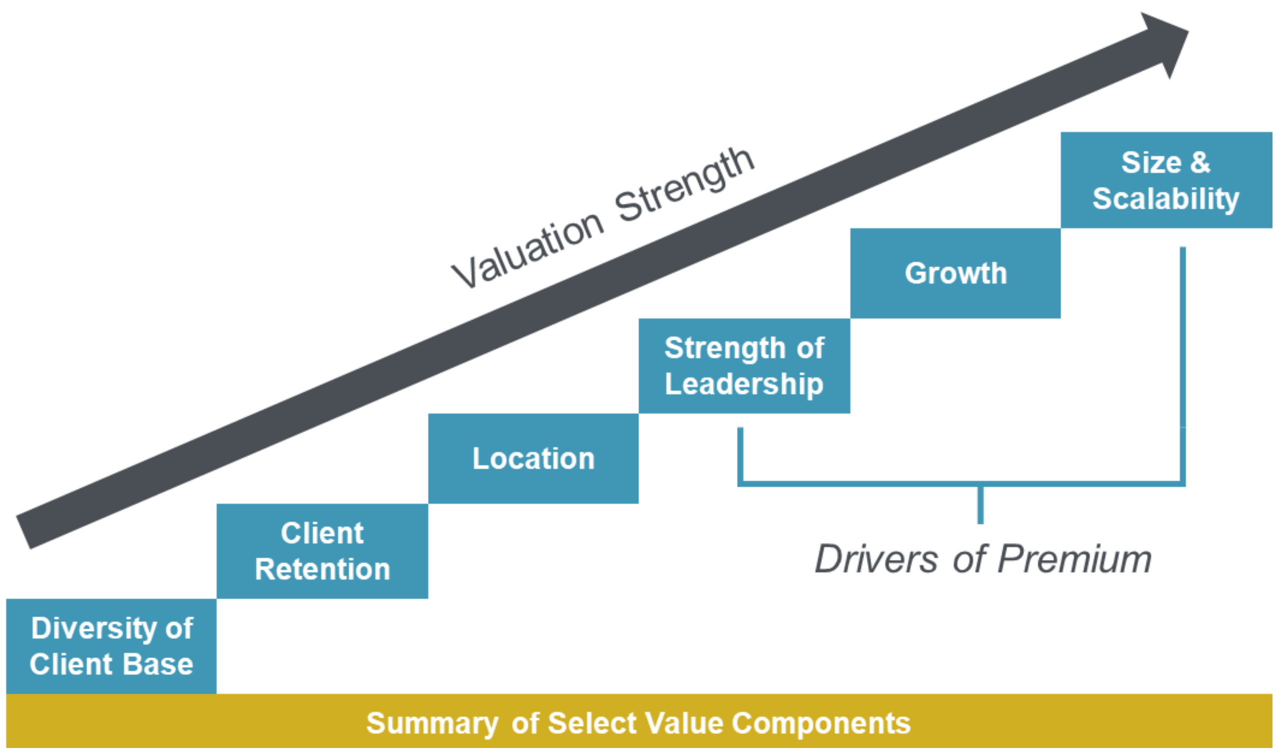
Minority Financial Acquirer			
Firm	Approx. AUM	Financial Backer	Select Firm Acquisitions
EMIGRANT PARTNERS	$57B	New York Private Bank & Trust	Hollencrest Capital ($1.7B); Pure Financial Advisors ($2.4B); Parallel Advisors ($3.0B); Stratos Wealth ($14.5B); NorthRock Partners ($1.5B)
KUDU INVESTMENT MANAGEMENT	$49B	White Mountains Insurance Group	Sequoia Financial Group ($4.7B); First Long Island ($1.6B); B|O|S ($4.76B)
LINCOLN PEAK CAPITAL	Lincoln Peak	n/a	BBR Partners ($17.9B)
ROSEMONT INVESTMENT GROUP	n/a	Markel Corp. (NYSE: MKL)	Clearstead Advisors ($5.7B); Wilbanks Smith & Thomas ($3.5B)

Source: Piper Sandler

Valuation

In recent years, the strong demand for wealth management firms from well-capitalized buyers seeking to consolidate in the sector has driven up valuations across the industry. Businesses continue to be valued based on earnings, but underpinning any valuation are several important factors.

ILLUSTRATIVE DRIVERS OF VALUE FOR WEALTH MANAGEMENT FIRMS



Source: Piper Sandler

In viewing the drivers of value for wealth management firms in a potential transaction, we distinguish between those fundamental components, which can be thought of as core components to underpin general interest from potential buyers and the key components that drive premium valuations. While subjective to an extent, the strongest valuations and frequently most successful transactions often check multiple, if not all, boxes.

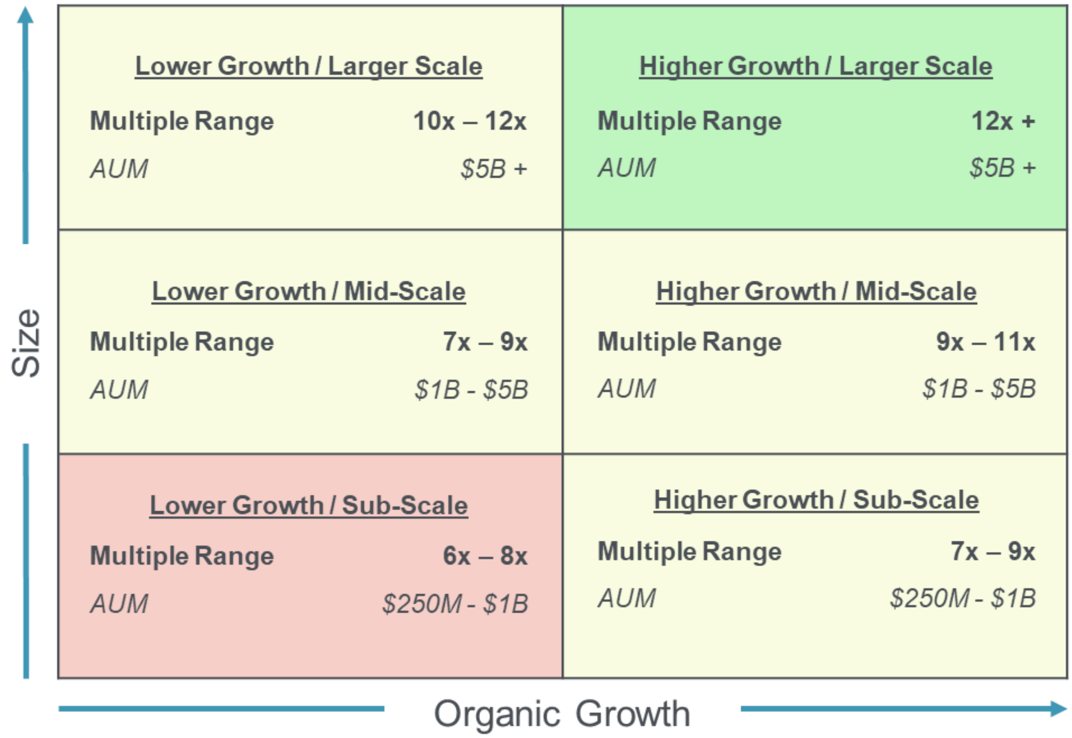
Fundamental Components of Value – While some acquirers value larger client relationships, substantial interest persists in firms serving the mass affluent, and valuation is not likely to suffer as a result. What is more relevant to buyers is a healthy diversity of a firms' client base. Buyers want to ensure that the business is not overly dependent on one, or a small number, of clients. Buyers, both new entrants into the space as well as seasoned acquirers, continue to look to client retention as a fundamental gauge and driver of value given the client retention rates we discussed earlier. While the recurring fee-based structures drive the attractive predictability of revenues for most wealth management firms, buyers also want to see low turnover and high retention of existing clients. Location, though often a matter of preference on behalf of individual buyers due to the regional nature of wealth managers and some potential buyers, is also likely to influence valuations as acquirers seek to gain access to particular geographic markets, with premia typically being paid for businesses in major cities/centers of wealth.

Drivers of Premium – Strong management and a depth of talent is often a baseline requirement among buyers and can be a significant driver of premium valuation, particularly with acquirers that are making a first-time acquisition in the space and thus need the leadership that experienced wealth managers can bring. This is especially realized amongst firms with balanced leadership with long runways to retirement. Firms with strong growth in both the top and bottom line are increasingly likely to command a premium valuation relative to their slower growing peers. This premium is especially realized for larger firms that have maintained a strong growth trajectory at scale. Along these lines, firms that have made investments into the business, via technology or acquisitions of firms or teams, are likely to reap rewards when it comes to valuation as they can serve as a true platform for future growth. These firms in particular become the primary targets for buyers with deep pockets that are looking to gain access to the attractive wealth management space. While these components will impact the valuation a firm will receive, the increase in acquisitive buyers, as seen in recent years, has created a scenario where nearly all firms are saleable.

Multiples have continued to rise in light of the strong interest from buyers in recent years. Research from Fidelity shows that the EBITDA multiple for deals has increased 40% from just five years ago.[6] The rise in valuation coincides with a number of marquee transactions in which the rumored multiples have vastly exceeded what was thought of as typical for the wealth management space. While notable, keeping these transactions in perspective is important and acknowledging that few firms offer the size, growth and scalability to command a valuation at those premium levels. As mentioned, larger firms are most likely to receive double digit multiples as there is a scarcity value associated with those firms. Even the fastest growing firms are likely to face headwinds in achieving a premium valuation if they have not achieved significant scale, as forward looking buyers evaluate not just historical growth, but ability to grow in the future.

[6] Fidelity. "M&A Valuation and Deal Structure." 2019

ILLUSTRATIVE VALUATION RANGES BY SIZE AND GROWTH

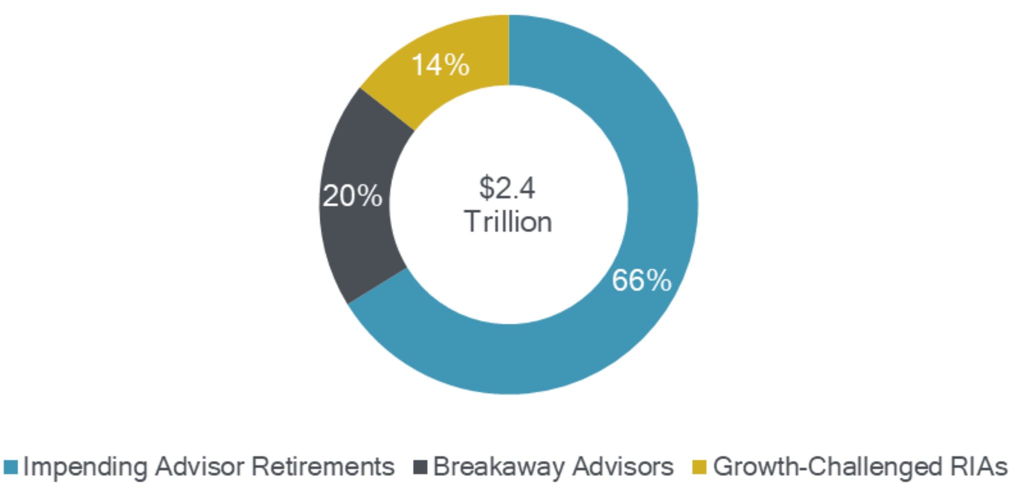


Source: Piper Sandler

Massive Long-Term Consolidation Opportunity

All of the factors driving potential sellers to the market remain in place and have a long trajectory. The combination of the age demographics of advisors, significant pool of potential sellers, and increased resource demands represent powerful M&A catalysts that, with well-funded acquirers, will drive strong continuous deal activity far into the future.

TOTAL ADDRESSABLE MARKET FOR RIA ACQUISITIONS OVER THE NEXT 5-10 YEARS[7]



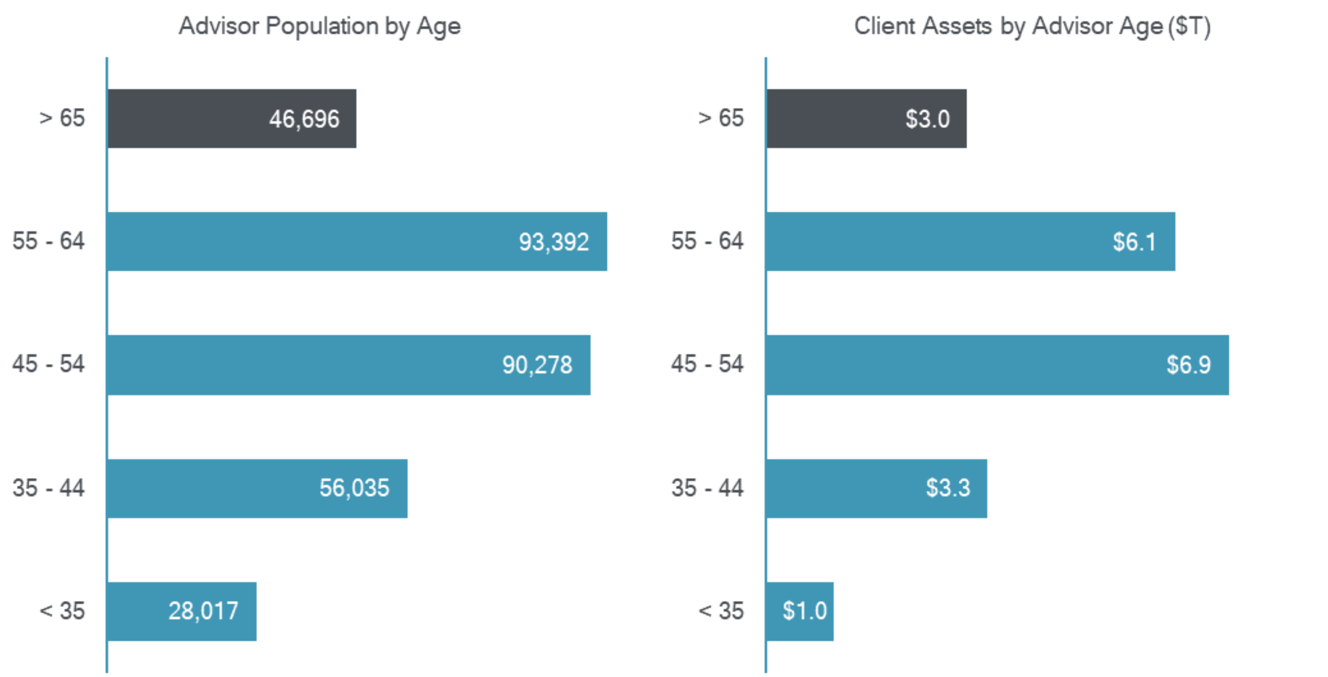
Source: Cerulli Associates

[7] Cerulli Associates. "U.S. High Net Worth Report." 2019

Advisor Demographics – The impending succession of aging advisors and requisite transition of ownership are a key contributors to the material consolidation opportunity. The majority of RIAs (62%) are still led by founders[8], ultimately driving the clock for succession and further consolidation with the average age of financial advisors at 55 years and approximately 20% of advisors at 65 or older.[9] Approximately one-third of advisors plan to retire in the next 10 years, putting approximately one-third of clients in potential transition. According to Schwab's 2019 RIA Benchmarking Study, 92% of wealth management firms are considering internal succession. Since the next generation at these RIAs are often in pure relationship management roles as opposed to asset gathering roles, founder-owners may need to look externally to address succession, ultimately selling the firm. A recent survey from valuation and consulting firm, DeVoe & Company, revealed that more than half of RIAs believe that leadership transitions from founders to the next generation would not be without challenges. For example, nearly 90% of firms with approximately $1B in AUM said that they would see the transition to the next generation as "bumpy".[10] This sentiment opens the door for acquirers, with deeper talent pools, that can add meaningful support and mitigate transition-related risks.

Growth of RIA businesses, as discussed earlier, has compounded the succession issue, as equity value in these firms has increased drastically over the last decade. The next generation, typically in their mid-40s with mortgages, growing children, and with less time to build up significant savings, do not have the financial wherewithal to buy out founders in a meaningful way. Founders must weigh potentially discounting the value of their equity to effectuate an internal transfer versus pursuing a sale to larger organizations, consolidators, or financial sponsors.

ADVISOR AGE AND CLIENT ASSETS[11]



Source: Envestnet

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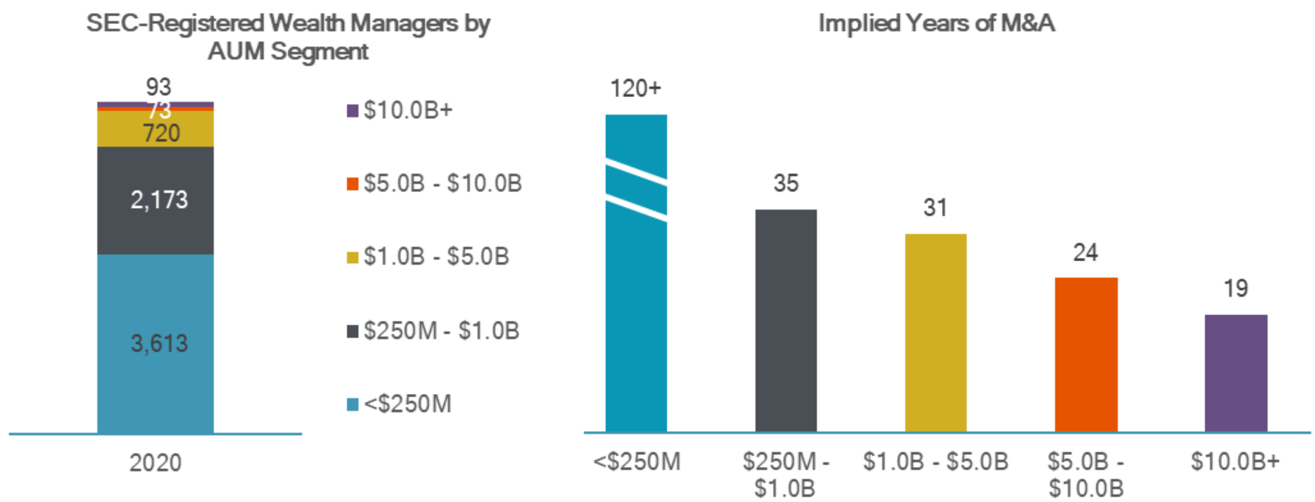
[8] Mercer Capital. "Posturing Your RIA Firm For a Successful Succession." 2019
[9] J.D. Power. "2019 U.S. Financial Advisor Satisfaction Study." 2019
[10] DeVoe & Company. "It's Time for a Human Capital Revolution." 2020
[11] Envestnet. "April 2019 Industry Trends." 2019

Significant Pool of Potential Sellers – The potential pool of RIA acquisitions over the next five to ten years is estimated to be $2.4T in AUM, which represents a massive growth opportunity for buyers and consolidators, which currently manage a total of $308B[12], or less than 15% of the overall market. As discussed earlier, of the 6,600+ RIAs currently in business, 55% or approximately 3,600 manage less than $250M in AUM, making them likely targets to be acquired or to merge with another firm of similar size. Wealth managers with AUM between $250M and $1B, which represented the most active segment for M&A in 2019 reaching over 60 deals, currently number nearly 2,200 firms. These figures imply approximately 35 years of potential M&A activity in this segment alone, assuming for illustrative purposes that all of these firms transacted at a rate consistent with 2019. Wealth managers with $1B or more in client assets, numbering nearly 900 firms, will attract firms seeking to move the needle in the size and shape of their own firms. Firms with client assets well north of $1B will also attract interest from financial sponsors looking to make a platform acquisition. Within each of these segments, we expect many of the firms will be buyers themselves, looking to capitalize on substantial opportunity to tuck in smaller firms before they, in turn, may decide to sell.

WEALTH MANAGERS BY AUM SEGMENT & POTENTIAL YEARS OF M&A ACTIVITY[13]



Source: Piper Sandler

Increasing Resource Demands – Wealth management businesses are facing increasing demands on their resources. Clients demand a higher level of customization from their advisors, and firms that are able to provide a comprehensive, holistic solution to these client needs stand to benefit. However, addressing an increased level of service to clients can lead to ever-increasing costs and calls on advisors' time. The strain on resources is not driven solely by clients. The demands of running the day-to-day operations of a wealth manager continue to increase whether it be ever escalating technology costs, legal and compliance burdens, cybersecurity, or any other number of operational requirements that have surfaced in recent years. Addressing this broad and growing set of demands requires a substantial investment of time and capital. For many smaller firms with advisors wearing multiple hats, this takes them away from their highest and best use of winning new clients and servicing existing ones. Rather than building these capabilities internally or renting them, firms may seek access to them through a sale or partnership with a larger organization.

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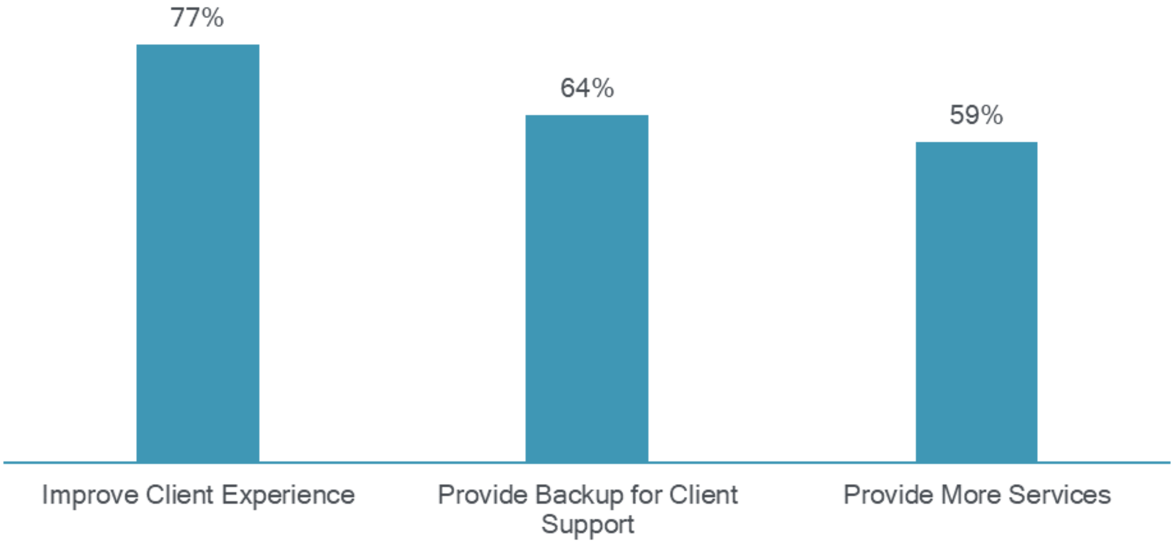
12 Cerulli Associates. "U.S. High Net Worth Report." 2019

13 Includes only SEC-Registered Investment Advisors that have discretion over 50% of assets and serve a client base made up of greater than 50% private clients; Based on 2019 transaction totals for the applicable AUM segment

BENEFITS OF CONSOLIDATION – SURVEY OF U.S. RIAS[14]



Source: Cerulli Associates

The wealth management industry comprises all the key elements of an industry prime for ongoing consolidation. The recent years of M&A activity have indicated as much but despite the record deal volumes we have seen in successive years since 2017, the industry is still in the early innings of its consolidation. We expect a long-term cycle of acquirers building platforms and ultimately seeking value for those platforms via either a public float, which we expect will be the clear minority of instances, or an ultimate sale. Given the expected ongoing deal volumes and continuing strong interest from a large number of buyers and buyer types, we expect valuations will remain strong for those businesses which 'check the value boxes', as the buyers / consolidators have deep pockets of capital to deploy in an industry with strong long-term dynamics which are not heavily influenced by economic climate or the passage of time – thus those dynamics are here to stay.

[14] Cerulli Associates. "U.S. RIA Marketplace." 2019

Appendix: Evolution of the Wealth Management Business Model

Over the past decade, the wealth management industry has materially evolved as regulation and technology shape multiple business models and enable constantly improving client value propositions. First and foremost, clients are looking for sound advice and insights, personalization, greater service offerings, and more dynamic access to information. The increased demands of clients and prospects, driven in part by demographics and the massive generational wealth transfer currently underway, along with technological factors such as smartphone and app usage, are forcing wealth managers to adapt to higher client expectations in order to remain competitive. The most effective firms look to address demands through a client service model that engages clients and differentiates themselves from competitors. A critical component of the client service model, and to an extent the identity of the firm, is the approach to management of the client's assets. Given that the wealth management market remains so fragmented and non-standardized, multiple client service models as well as approaches to portfolio management are able to continually coexist.

Portfolio Management – The portfolio management landscape for wealth management businesses has evolved from the existence of largely a single approach – an investment counseling model focused on individual stock-picking – into multiple models with differing philosophies and approaches:

a) Legacy investment counseling firms, which utilize proprietary investment strategies to manage client portfolios in a closed architecture, where the same financial advisors are generally analyzing securities, constructing and managing portfolios, as well as managing the overall client relationship.

b) Fully open architecture firms, which utilize external investment options for all asset classes. These firms typically lead with their expertise in personalized financial planning and customized asset allocation or may lead with other non-investment specialties, such as insurance or estate planning.

c) Hybrid firms, which have blended open and closed architecture to utilize select internal investment capabilities, typically large cap U.S. equities and U.S. taxable and tax exempt fixed income, but fill out the full asset allocation spectrum with external investment options.

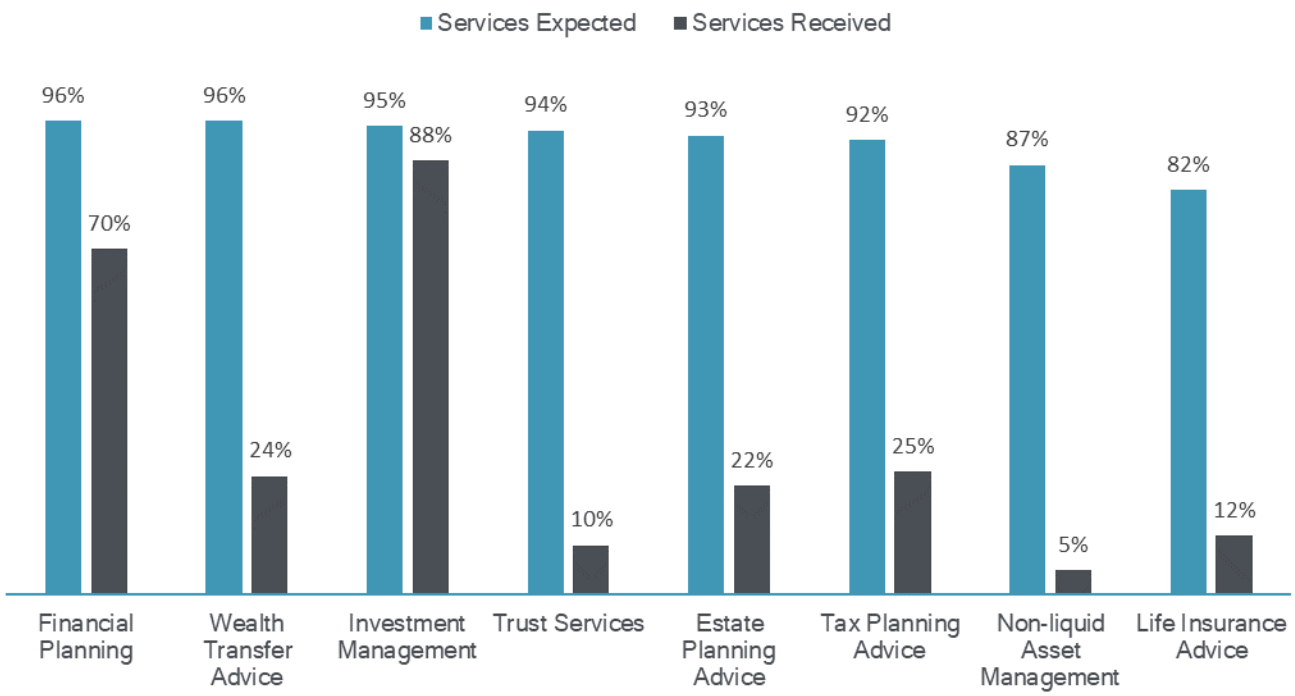
COMPARISON OF PORTFOLIO MANAGMENT MODELS

	Pros	Cons
Investment Counseling	• Single layer of fees • Advisors have firsthand knowledge of client portfolios at a security-by-security level • Greater ability to differentiate investment process and approach	• Heavy focus on investment performance may distract from other client needs • Limitation on advisor's ability to scale his/her business • Capacity limitations for the advisor to balance equity research with client service • Difficult to be best-in-class across all asset classes
Hybrid	• Combines 'best of both worlds' enabling an advisor to use both internally managed strategies and external investment options • A broader offering enables advisor to offer greater degree of customization for clients	• May limit advisor's ability to scale his/her business, depending on exact business • Ability to invest client assets in both internal and external products can create the perception of conflicts of interest
Open Architecture	• Creates greater capacity for advisor to provide holistic financial advice • Shifts focus from investment returns to overall financial wellness • Greater ability to scale an advisor's business	• May be less appealing to clients focused largely on investment returns • Potentially more expensive as the use of third party managers creates a second layer of fees • Less granular control over portfolio management

Source: Piper Sandler

Client Service Model – The critical component to the client relationship beyond portfolio management is the client service experience. The historical investment performance orientation of investment counseling firms has evolved into the more modern focus on overall financial wellness. Wellness includes holistic financial planning, which requires a high degree of trust between advisor and client and a broad array of tools and capabilities for the advisor to create a fully personalized financial plan and asset allocation. Wealth management firms of today and tomorrow are expected to be able to develop and execute a long-term wealth strategy for each client's financial well-being. The ability for wealth managers to deliver personalization ultimately requires greater investment in technology in order to deliver customization in an efficient and scalable way.

CLIENT SERVICES EXPECTED VS. CLIENT SERVICES RECEIVED[15]



Source: Spectrem Group

Clients' expectations are no longer simply related to asset allocation and investment returns. According to Capgemini's 2019 HNW Insights Survey, wealth management clients are interested in a firm's overall service quality above all else. It was the only factor among more than ten including investment returns which more than 90% of those surveyed considered to be a primary criteria when selecting an advisor. Other services, such as estate planning, tax advice, risk management, and philanthropic strategies need to be incorporated into the advisor's tool set. While they do not necessarily need to be offered in-house, wealth management firms need to be fluent on the topics. Furthermore, advisors should be prepared to act as a general contractor of sorts, coordinating with other service providers all toward the goal of providing clients with a broad spectrum of services.

[15] Spectrem Group. "Defining Wealth Management" 2018

Piper Sandler Financial Services Group

Our financial services group is comprised of dedicated industry professionals with decades of domain expertise. We work closely with clients to understand their goals and challenges, crafting tailored solutions to help them meet their strategic objectives.

Piper Sandler's dedicated Asset Management Investment Banking Group has completed over 80 transactions in the asset/wealth management sector, representing over $50B in aggregate transaction value. We serve clients, large and small, in all sectors of asset/wealth management, around the world.

Select representative wealth management and wealth-tech transactions include:

$26,000,000,000
TD Ameritrade
has agreed to be acquired by
Charles Schwab
Financial Advisor to the Strategic Development Committee of the Board of Directors of TD Ameritrade

First Long Island Investors, LLC
has sold a minority stake to
KUDU Investment Management
Financial Advisor to First Long Island Investors

American Trust & Savings Bank
has sold
American Trust Retirement
to
First Mercantile
Financial Advisor to American Trust & Savings Bank

Green Square Wealth Management
has been acquired by
HighTower
Financial Advisor to Green Square Wealth Management

WiseBanyan
has been acquired by
Axos Financial
Financial Advisor to WiseBanyan

$3,018,000,000
Financial Engines
has been acquired by
Hellman & Friedman
Financial Advisor to Financial Engines

$80,000,000
Archway
has merged with
SEI
Financial Advisor to Archway Technology Partners

ALTX
has merged with
Addepar
Financial Advisor to AltX

$660,000,000
Envestnet
has acquired
Yodlee
Financial Advisor to Envestnet

The Carlyle Group
has sold a portion of its equity interest in
Avalon Advisors Global Investment Management
to
The Cynosure Group
Financial Advisor to The Carlyle Group

Falcon
has sold
WealthTrust
to a newly-formed portfolio co. of
Lee Equity
Financial Advisor to Falcon Investment Advisors and WealthTrust

Washington Trust
has acquired
Halsey Associates
Financial Advisor to Washington Trust

Snowden
has received a strategic growth capital investment from
Estancia Capital Partners
Placement Agent and Financial Advisor to Snowden Capital Advisors

Beacon Trust
has acquired
The MDE Group Wealth Leadership
Financial Advisor to Beacon Trust Company

$60,602,157
Silvercrest Asset Management Group
Initial Public Offering
Lead Bookrunner

Lincoln Peak Capital
completed a minority equity investment in
BBR Partners
Financial Advisor to BBR Partners