

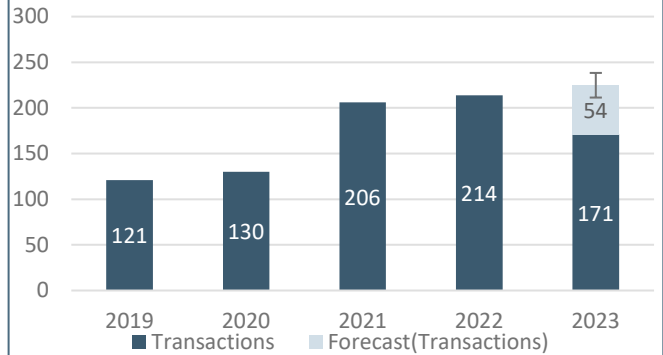
The Exchange

A Quarterly RIA
M&A Newsletter

Q3 2023 Registered Investment Advisor M&A Snapshot

During Q3 of 2023, there were 54 RIA M&A transactions, bringing the year-to-date total to 171. This figure exceeded the same period in 2022 by 10 transactions and pushed the year-to-date total four transactions ahead of the 2022 pace, potentially setting the stage for a new calendar year record in 2023. Notably, the lion's share of these transactions was still dominated by large RIAs and branded acquirers, with most of the activity being driven by firms with assets under management (AUM) of less than \$500 million. This sustained M&A activity highlights the ongoing resilience and expansion efforts within the RIA sector.

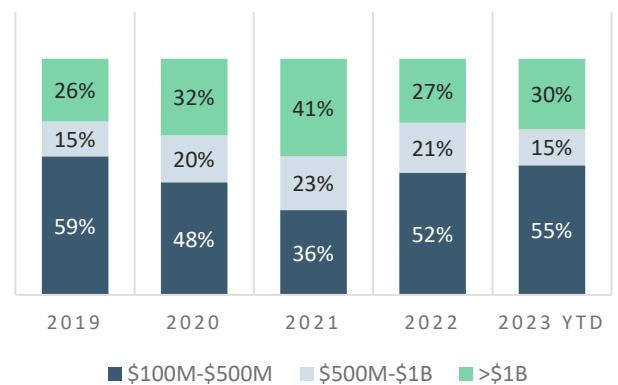
RIA Annual Transactions Count



Q3'23 Transactions by Acquirer Type

	\$100M- \$500M	\$500M- \$1B	>\$1B	Total
Bank	2			2
Branded Acquirer	20	4	5	29
IBD	1			1
Large RIA Acquirer	11	2	2	15
Other	1	1	2	4
Strategic Aggregator	1		2	3
Total	36	7	11	54

Transaction % by Seller AUM



Interest Rates Impact on RIA M&A Activity

Given the widespread practice of utilizing debt to facilitate RIA acquisitions through add-on deals or LBOs, it is imperative to gauge the magnitude of debt these firms are incurring and its repercussions on their ROI and free cash flow. RIAs, along with their financial backers, typically have the capacity to leverage their cash flow by a factor of 3 to 6, contingent on the capital source (bank or private), and the interest expenses they bear typically fall within the range of prime to prime+6. In isolation, one would anticipate that an increase in interest rates would reduce the number of transactions as deals become costlier. However, when examining transaction counts over a calendar year, it seems that this doesn't have a substantial impact.

This might be misleading for various reasons, primarily due to the presence of timing bias.

[Cont. on p.2]

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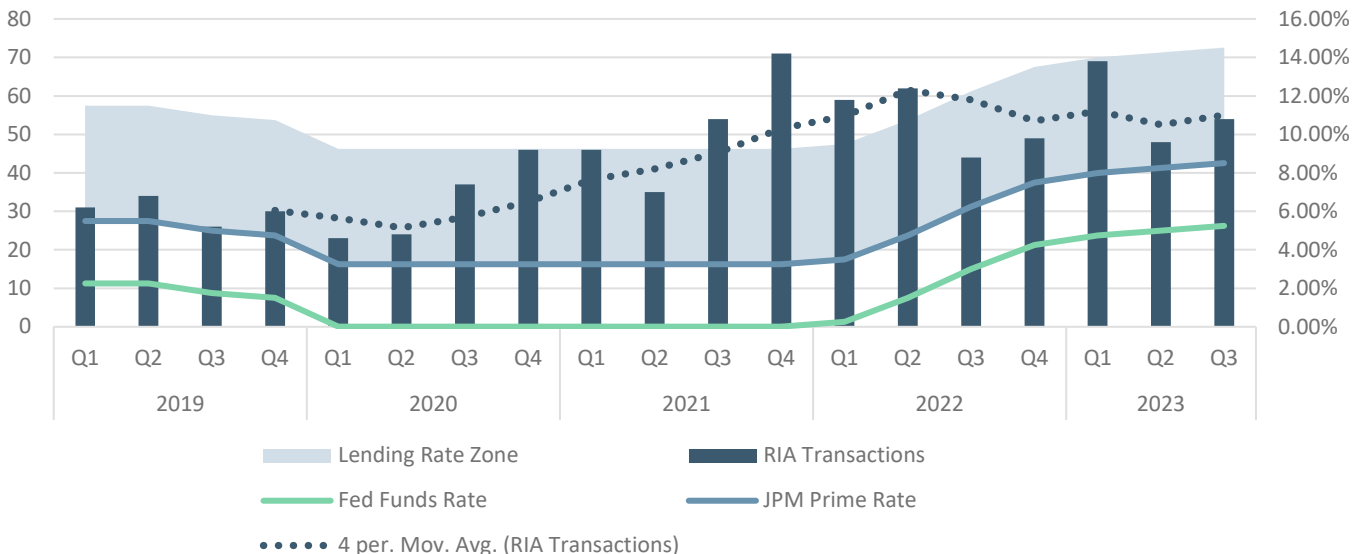
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The strong first half of 2022 significantly influenced the calendar year figures before the effects of rising interest rates became apparent. As a result, we've observed a decrease in the average number of transactions when considering a trailing 4-quarter basis, declining from its peak of 62 in Q2 of 2022 to 55 in Q3 of 2023.

The chart below tells a story of the correlation between interest rates and RIA transactions over the last several years. In 2019, as interest rates decreased from 2.25% to 1.50%, RIA transactions saw fluctuations but maintained moderate activity. The year 2020, characterized by a stable 0.00% rate, experienced a steady increase in RIA deals, signaling industry resilience amid economic uncertainties. However, the trend shifted in 2022 when the Federal Funds Rate began to rise, reaching 4.25% by Q4, causing a slight dip in transactions. Remarkably, in 2023, the industry demonstrated remarkable adaptability, with RIA transactions remaining buoyant despite the rate's ascent to 5.25% in Q3, suggesting that the correlation between interest rates and RIA transactions is not entirely straightforward, with initial responsiveness followed by some resilience in transaction activity. RIA buyers are not necessarily put off by the higher cost of capital and have found ways to adjust deal structures in this environment to keep deals moving forward.

For sellers, it is imperative to comprehend the capital structure of their potential acquirer and how the transaction will be financed. Firms that have over-leveraged themselves with debt might face the risk of compensating for this with cost reductions or even the possibility of defaulting. On the other hand, for buyers who have ample cash reserves, this could be an opportune moment to be assertive with more attractive upfront cash offers, capitalizing on the shifting financial landscape to make their bids more appealing.

Quarterly RIA Transactions and Interest Rates



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TCC Corporate Finance Services for Registered Investment Advisors

TCC provides comprehensive M&A and valuation services to Registered Investment Advisors (“RIAs”), helping them to maximize the value of their business. RIAs are increasingly in need of M&A and valuation services for a variety of reasons including buying, selling, restructuring and growth strategies. TCC’s services help you make informed decisions about your business. We understand the unique challenges that RIAs face which allows us to provide comprehensive solutions that are tailored to the specific needs of each client.

Mergers & Acquisitions and Valuations Advisory

➤ Sell-Side Advisory

We provide comprehensive support from start to finish, from preparing marketing materials and finding the right buyer to negotiating the best deal and guiding you through due diligence.

➤ Valuation Services

Whether your firm needs a valuation performed for a merger, acquisition, succession planning or personal reasons, our experienced team can provide accurate and reliable valuation services for your RIA.

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Purchasing a firm is a big decision that requires a large time commitment. We help you navigate your transaction by aiding in financial modeling, deal structuring and contract negotiation.

➤ Merger Advisory

TCC's merger support service works in close collaboration with all stakeholders to transform transactional mergers into successful strategic partnerships.

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We will work with you to create a comprehensive plan that will ensure your business continues to thrive even after you are ready to ease out.

➤ Capital Solutions

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Maximize your firm’s value as you prepare for a transaction by utilizing our framework for tracking KPIs with industry benchmarks and tailored advice.

➤ Merger & Acquisition Strategy & Search

TCC can assist in developing an M&A strategy and executing a focused search for acquisition targets.

Why The Chicago Corporation

➤ Industry Expertise

Our team understands the RIA industry and how to best position your firm to exceed your transaction goals and maximize value.

➤ Culture

Clients come first. TCC looks to build long-term client relationships – not transaction driven.

➤ Personal Attention

Two Managing Directors are involved in every engagement.

➤ Deal Experience

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➤ Customized Solutions

Every business owner's situation is different; we work with each client to develop optimal solutions for them.

➤ Excellence

Goal to exceed client expectations by providing best-in class, unbiased advice.

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About Bryan, RIA Industry Specialist



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Bryan is a Managing Director at The Chicago Corporation with a focus on providing M&A advice and valuation services for registered investment advisors.

Bryan is a seasoned financial services professional, with extensive experience in M&A. His past roles at The Mather Group, LLC (2018-2022), PriceWaterhouseCoopers, LLP (2011-2018), and Sidell & Kodjayan PC (2009-2010) have enabled him to develop a strong background in consulting, quantitative analysis, financial modeling, valuation, due diligence, and M&A integration. As Director of M&A at The Mather Group, an independent, fee-only registered investment advisor, he contributed to the completion of over 20 transactions, helping the firm expand its national footprint and achieve significant AUM growth.

He holds a Master of Science in Accounting from Loyola University Chicago, a Bachelor of Business Administration in Accounting from the same university and is a Certified Public Accountant (CPA).

Firm Overview

The Chicago Corporation (“TCC”) is a Chicago-based investment bank with an experienced team providing best-in-class investment banking advisory and transactional services to middle market companies owned by entrepreneurs, families and financial sponsors with up to \$300M in revenue. The firm’s expertise supports clients considering growth, a change in capital structure, ownership transition or a liquidity event.

Broad Industry Experience



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- Valuations
- Sale of Companies
- Acquisitions
- Corporate divestitures/Spin-offs
- Leveraged buyouts, Rollups and Recapitalizations

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- Senior debt
- Junior debt
- Convertible securities
- Preferred equity
- Common equity

Strategic and Financial Advisory

- Strategic alternatives analysis
- Transaction preparation
- Capital structure analysis
- Shareholder liquidity alternatives

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