CI Financial's Spending Spree: What It Says About US Wealth Management

Charles Paikert, New York, November 12, 2020

We look behind the stunning numbers - and the upstart Canadian buyer – that are upending the US RIA merger and acquisition market.

Call it the year of surprises for the US RIA M&A market.

Few in the industry would have predicted that deals would be on target to surpass a record number of transactions nine months into a deadly global pandemic. (See a couple of examples here and here.)

Fewer still would have ventured to say that Canadian asset manager CI Financial, heretofore nonexistent in the US advisory business, would become the most aggressive acquirer in the market, amassing a truly amazing track record of 12 deals in nine months to surpass $16 billion in assets under management.

But here we are.

Thanks to a record 44 transactions in the third quarter - blowing by the previous quarterly record of 35 - 2020 is poised to exceed the annual record of 132 transactions set last year, according to DeVoe & Co's RIA Deal Book. (See also data on Q3 from ECHELON Partners.)

"The current level of activity was a surprise to many," CEO David DeVoe said at the company's annual M&A + Succession conference, held virtually this year. "But RIA M&A activity is now running red hot."

The unlikely rise of CI Financial
And no buyer has been hotter than CI Financial - which went oddly unmentioned at the DeVoe conference.

Led by 39-year old Kurt MacAlpine, a former McKinsey and WisdomTree Asset Management executive, CI has stunned the US wealth management market with its sudden rise to prominence.

MacAlpine began buying in February and his latest deal - and third in three weeks - is a whopper; a 100 per cent purchase of The Roosevelt Investment Group, a New York City-based RIA with $2.7 billion in assets under management.

MacAlpine has openly touted CI's intention to deploy the firm's significant cash reserves, which include $179 billion in assets, to become "the buyer of choice" in the US.

"We're the well-capitalized buyer in the space," MacAlpine told RIAIntel earlier this month.

CI is taking advantage of its deep pockets and cheap debt to spend its way to the top, rival buyers say. "They're bidding prices up," one strategic buyer said.

Buying frenzy, rising multiples

A buying frenzy and fierce competition has indeed resulted in skyrocketing valuations that has reached the low double figures for a desirable RIA with over $1 billion in AuM and the mid-teens and higher for prime wealth managers with over $10 billion in assets.

The rising multiples for these big firms can largely be attributed to their "scarcity value" because there are so few high quality multi-billion dollar firms that come to market, Hightower CEO Bob Oros said at the DeVoe conference.

"Valuations are absolutely picking up," Oros said. "And firms with $1 billion to $5 billion or so are more common now."

Why COVID has been a catalyst for deals

Paradoxically, the coronavirus has also helped spur M&A activity, according to industry executives.

"The fact that advisory firms have done so well during the pandemic has shown everyone - even more than before - why this is such an attractive market to invest in," investment banker Steve Levitt, managing director of Park Sutton Advisors, said. "The recurring revenues, sticky high net worth clients and very steady growth make this sector a winner at a time when there are a lot of losers."

Well capitalized investors had a "quick education" about the RIA market during COVID, noted Karl Heckenberg, CEO of Emigrant Partners and Fiduciary Network. "Even after the big market drop, advisory firms were only down around 8 per cent in Q2," Heckenberg said. "That's very nominal, and reinforced the strength of the market to sponsors."

COVID was also a catalyst for owners without a succession plan, DeVoe noted. "Many experienced a shot across the bow with the mortal reality of the coronavirus," he said. "Their subsequent actions are now evidenced in the M&A numbers."

The inability of firm principals to meet in person during the pandemic gave bigger firms an advantage, according to dealmaker Peter Nesvold, the former Silver Lane Advisors managing partner, who just started his merchant bank Nesvold Capital Partners.

“It’s much harder to have a merger of equals when you can’t meet in person,” Nesvold said. “If you’re really going to be running things together, you have to be very comfortable with your partner and you can’t make that judgement over a screen. But if an owner or a team know they’re going to get paid to simply plug into a larger organization, that’s more cut and dry.”

Mega-firms emerge

Indeed, large firms have gotten even bigger as a result of the current market frenzy, DeVoe said at the conference.

Transactions involving firms with more than $1 billion in AuM spiked 48 per cent higher in the second and third quarter compared with the same period last year, and large RIAs and consolidators have accounted for nearly 80 per cent of all transactions year-to-date, according to DeVoe’s Deal Book.

The need for scale has overtaken succession planning as the main driver of M&A, DeVoe said. As the industry continues to consolidate and competition intensifies, the importance of resources, teams and platforms has become more critical, he said.

In a hyper-fragmented industry numbering over 13,000 firms, consolidation is a “natural evolution,” DeVoe said. Around two dozen firms, he said, are emerging as a subset of giant “meta” firms that are growing faster and pulling away from the rest of the industry.

Behind CI’s strategy

Without question, CI Financial is determined to be among the industry’s elite.

In fact, in addition to a multi-billion dollar AuM, its latest acquisition also has a distinguished pedigree - Roosevelt Investment Group traces its roots back to the 19th century and was founded by a cousin of former President Theodore Roosevelt.

Led by brothers and co-chief executives Adam Sheer and David Sheer, Roosevelt specializes in investments for the funeral service and cemetery industry. It also provides asset management, financial planning and wealth management services to high net worth families in the greater New York area.

Financial terms of the deal, which is expected to close by the end of the year, were not disclosed, but to date all CI Financial deals have been cash. Park Sutton Advisors served as financial advisor to Roosevelt.

To date, CI has made nine direct acquisitions and three through its RIA affiliates. Last week, CI announced that it had applied for a US listing through the New York Stock Exchange to support the continued acquisition of US wealth management firms.

CI Financial also recently announced agreements to acquire 100 per cent of Doyle Wealth Management, in St Petersburg, Florida, a majority interest in Stavis & Cohen Financial, in Houston, and full ownership of Bowling Portfolio Management, in Cincinnati.

The aggressive move into the US RIA sector reflects CI's "strategic priorities of globalizing the firm and expanding its wealth management platform," according to a company statement.

CI's Canadian businesses include Assante Wealth Management, CI Private Counsel LP and Aligned Capital Partners Inc.

As part of its strategy, CI says it will extend the CI Private Wealth brand, which was recently introduced in Canada to represent its high net worth and ultra-high net worth advisory businesses, to the United States.