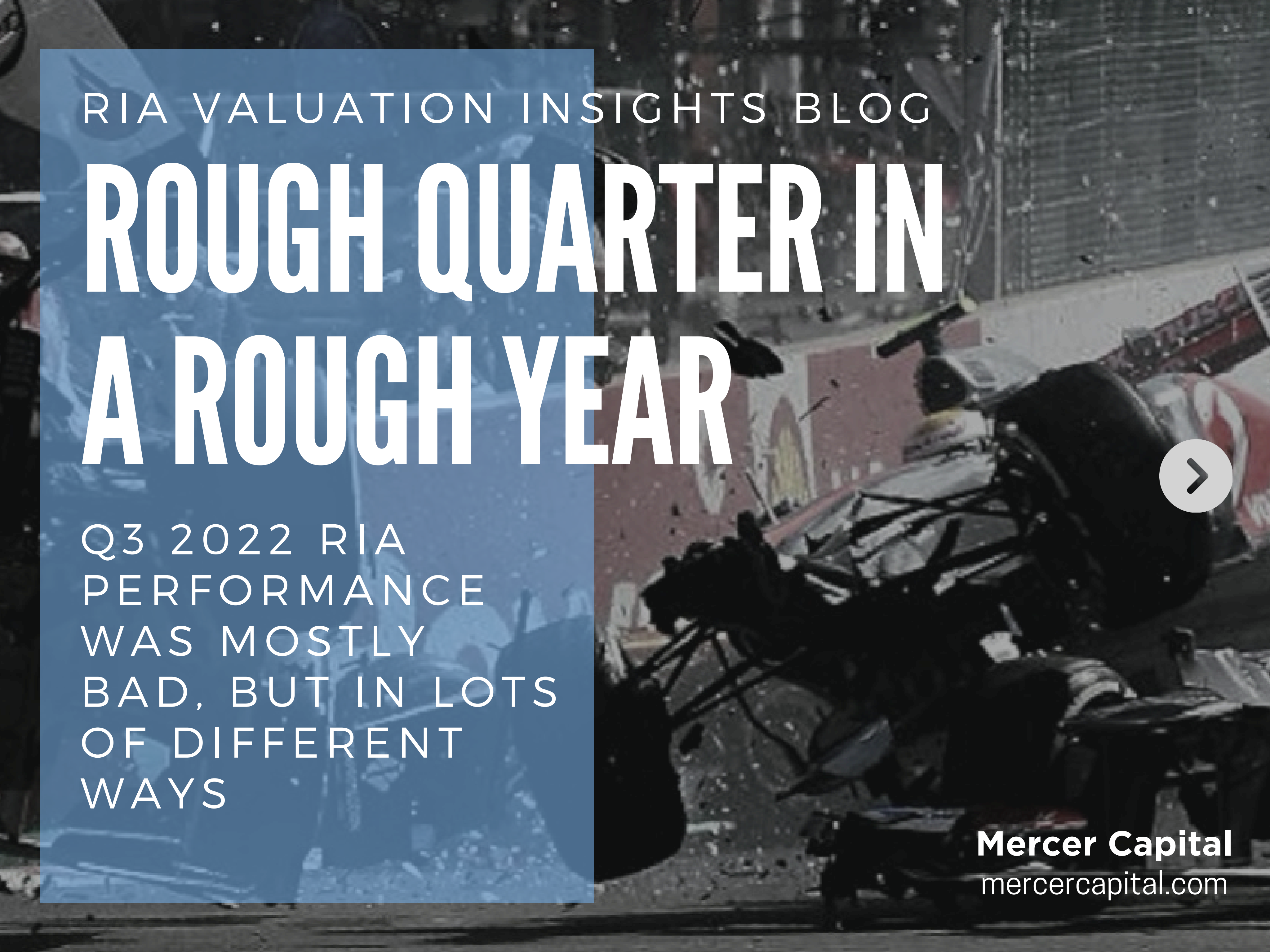
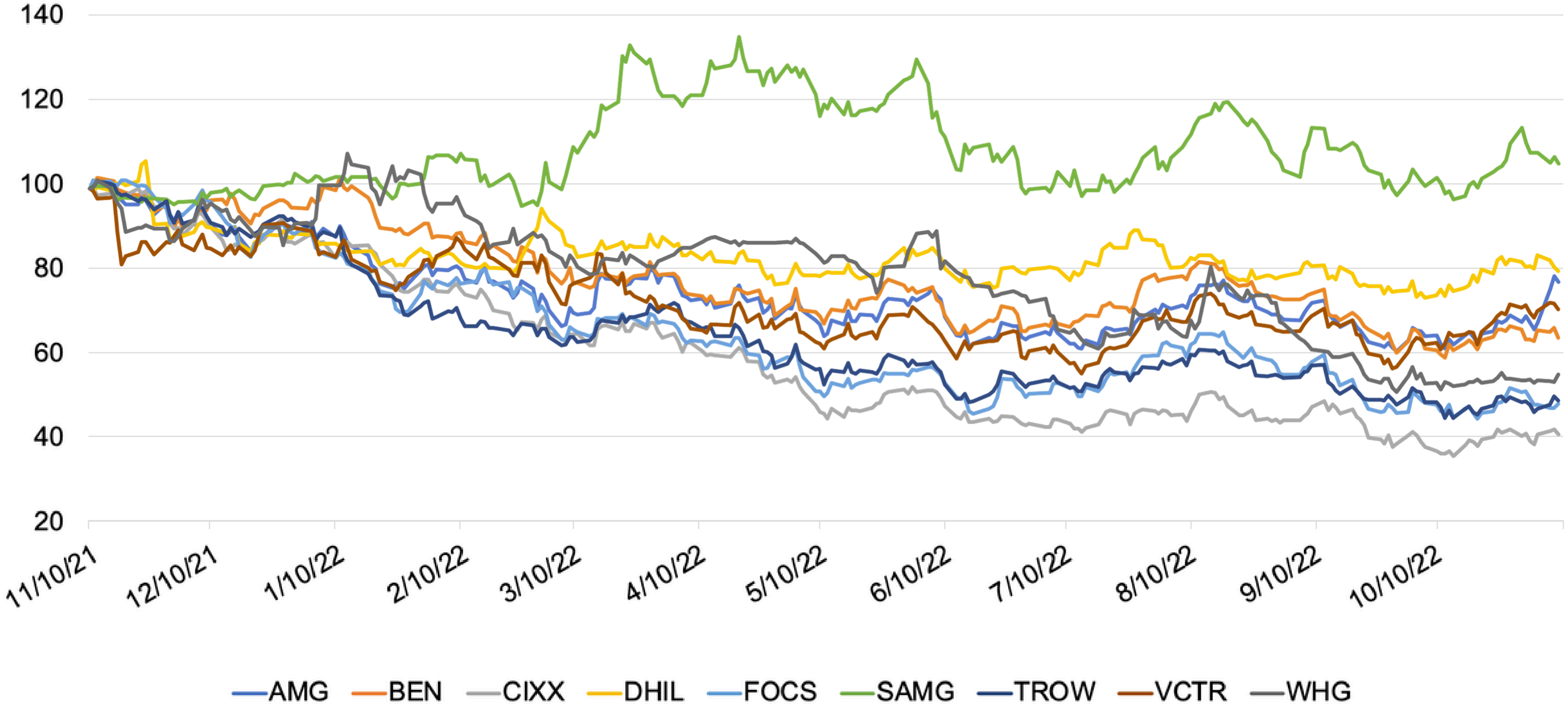


RIA VALUATION INSIGHTS BLOG
ROUGH QUARTER IN A ROUGH YEAR
Q3 2022 RIA PERFORMANCE WAS MOSTLY BAD, BUT IN LOTS OF DIFFERENT WAYS
Mercer Capital
mercercapital.com

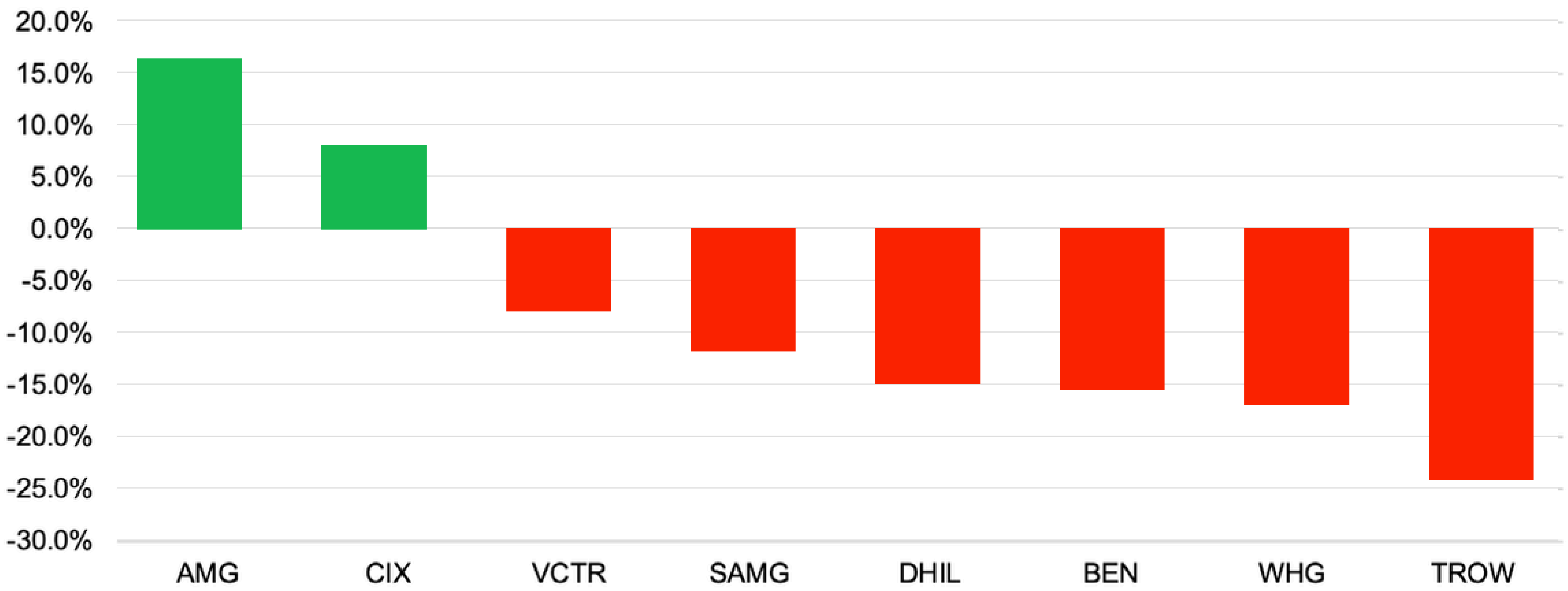
Public RIA Total Returns - Year Ended November 9, 2022



NOT MUCH GREEN ON THE SCREEN

RIA share prices peaked around Thanksgiving of last year. When it became clear that the Federal Reserve was going to start raising rates, valuations started dropping without relief for the better part of this year. The worst hit were those with leveraged balance sheets. Interestingly, one is still positive for the year...

One-Year Percent Change in AUM - Quarter Ended Sep. 30, 2022



BAD MARKETS ARE HARD TO OVERCOME

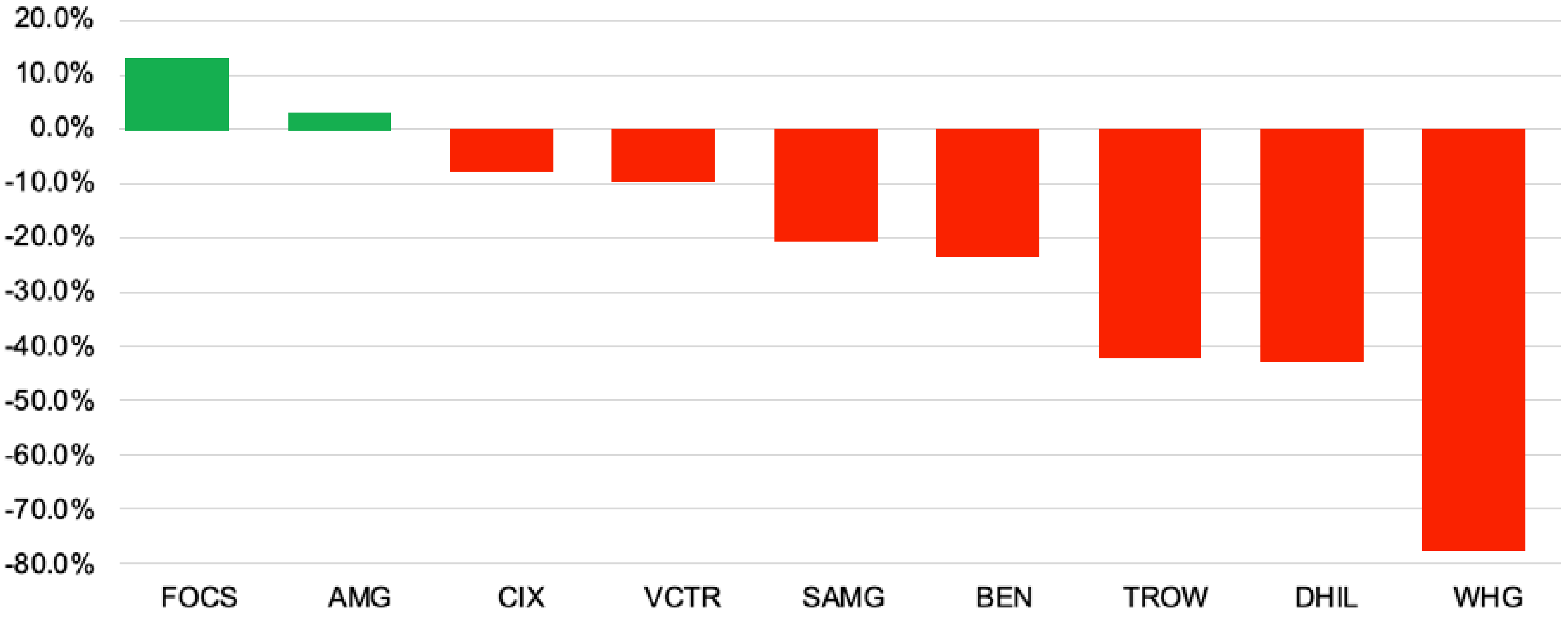
AUM trends were, unsurprisingly, not encouraging. With the exception of Affiliated Managers Group and CI Financial, which managed some growth on a year-over-year basis, a variety of other public RIAs shed business. The carnage didn't seem to discriminate between wealth management models and asset management models. Of note, Focus Financial, which doesn't file as an RIA, does not report changes in AUM.

YTD Net Organic AUM Flows (% of 12/31/21 AUM)

ORGANIC GROWTH, OR LACK THEREOF, IS TELLING

RIAs with successful marketing programs can weather bad markets. Victory and Silvercrest both managed to find organic growth (customer additions net of terminations) in spite of a tough year.

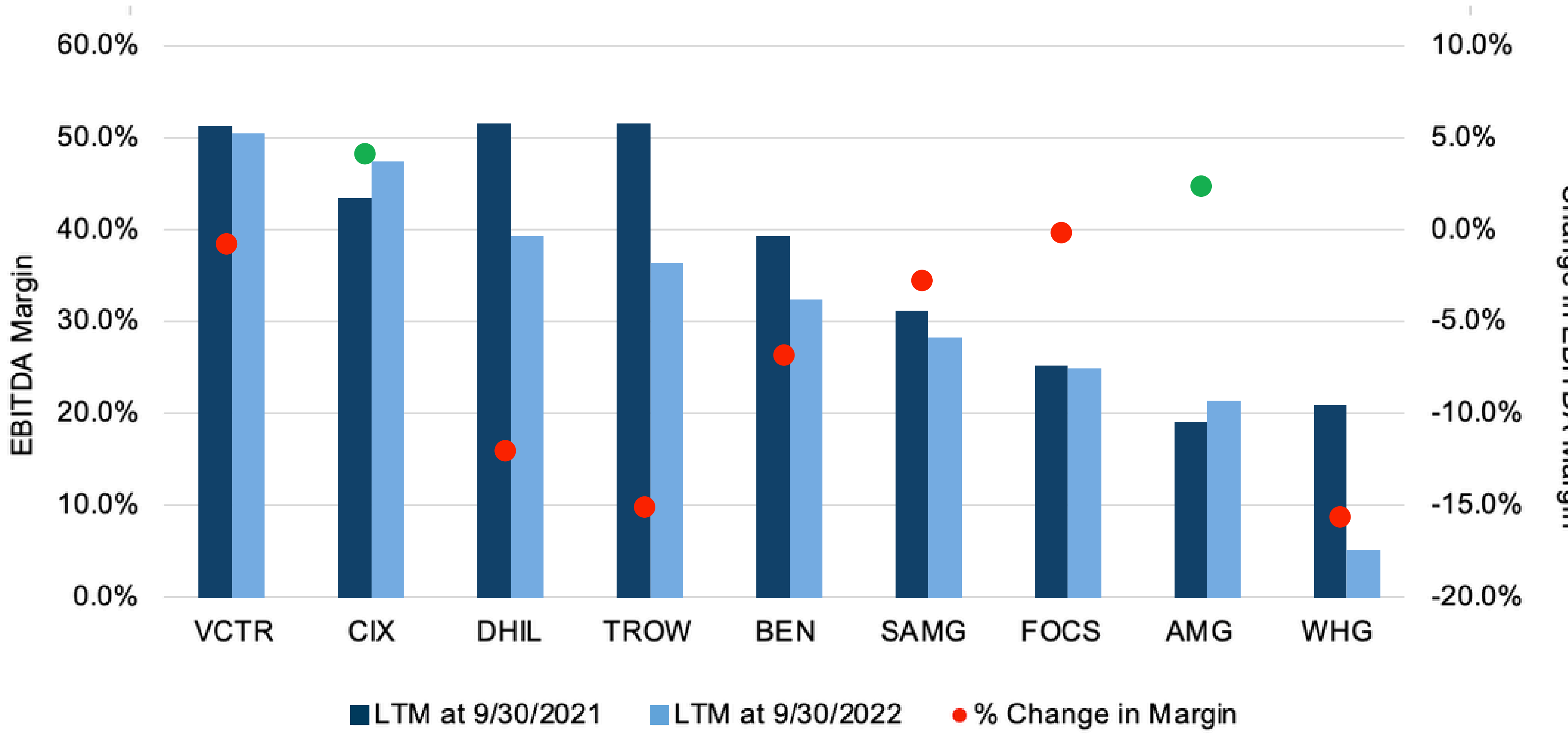
One-Year Percent Change in EBITDA - Quarter Ended Sep. 30, 2022



OPERATING LEVERAGE CUTS BOTH WAYS

The combination of weak AUM and inflationary impacts on expenses drove down EBITDA in the most recent quarter, in some cases dramatically. Focus had the best year-over-year change in EBITDA, but a substantial portion of that increase came from writing down contingent consideration on prior deals (i.e., acquired businesses were underperforming hurdle metrics and thus would be paid less in earn-outs). Focus and AMG scored some acquisition-fueled growth in profitability, and new additions cushioned the downturn for CI Financial.

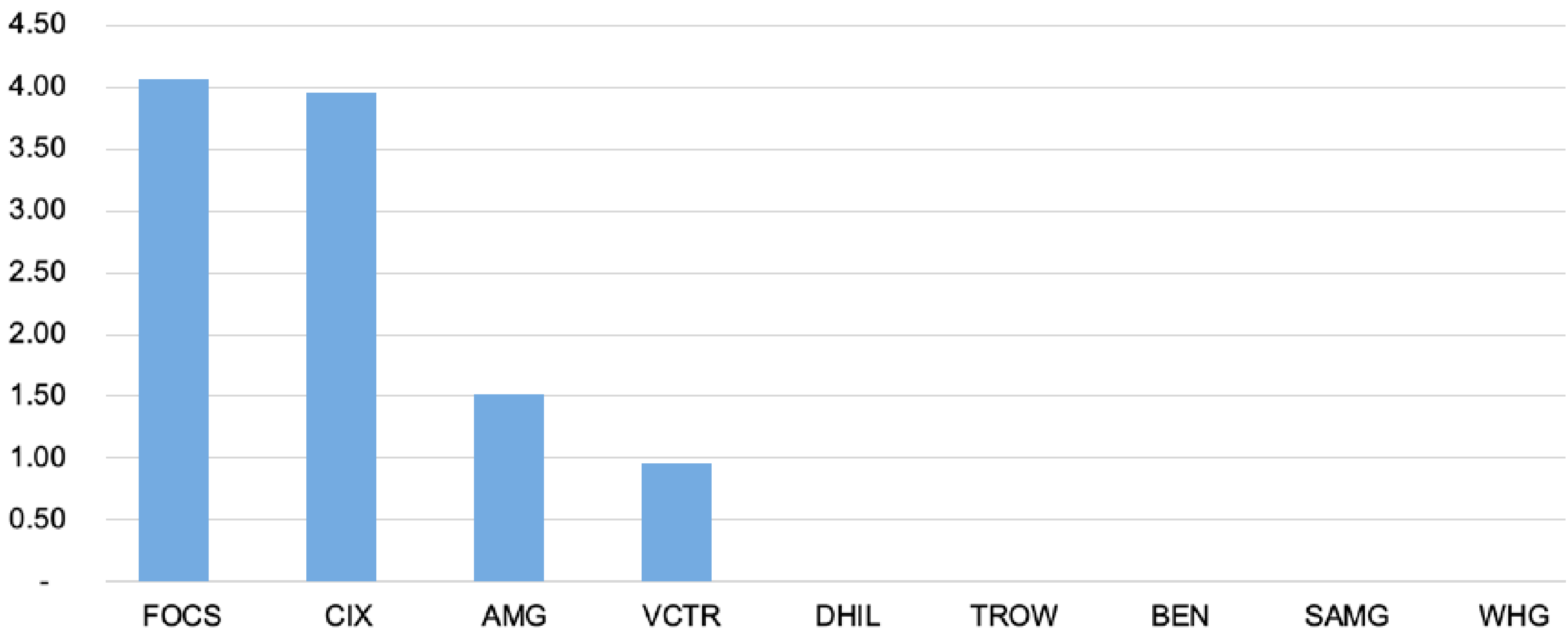
Year-Over-Year Change in Adjusted EBITDA Margins



MARGINS ARE ALSO UNDER PRESSURE

Unsurprisingly, the drop in EBITDA has been accompanied by declines in EBITDA margins. CI Financial and AMG, notably, bucked this trend.

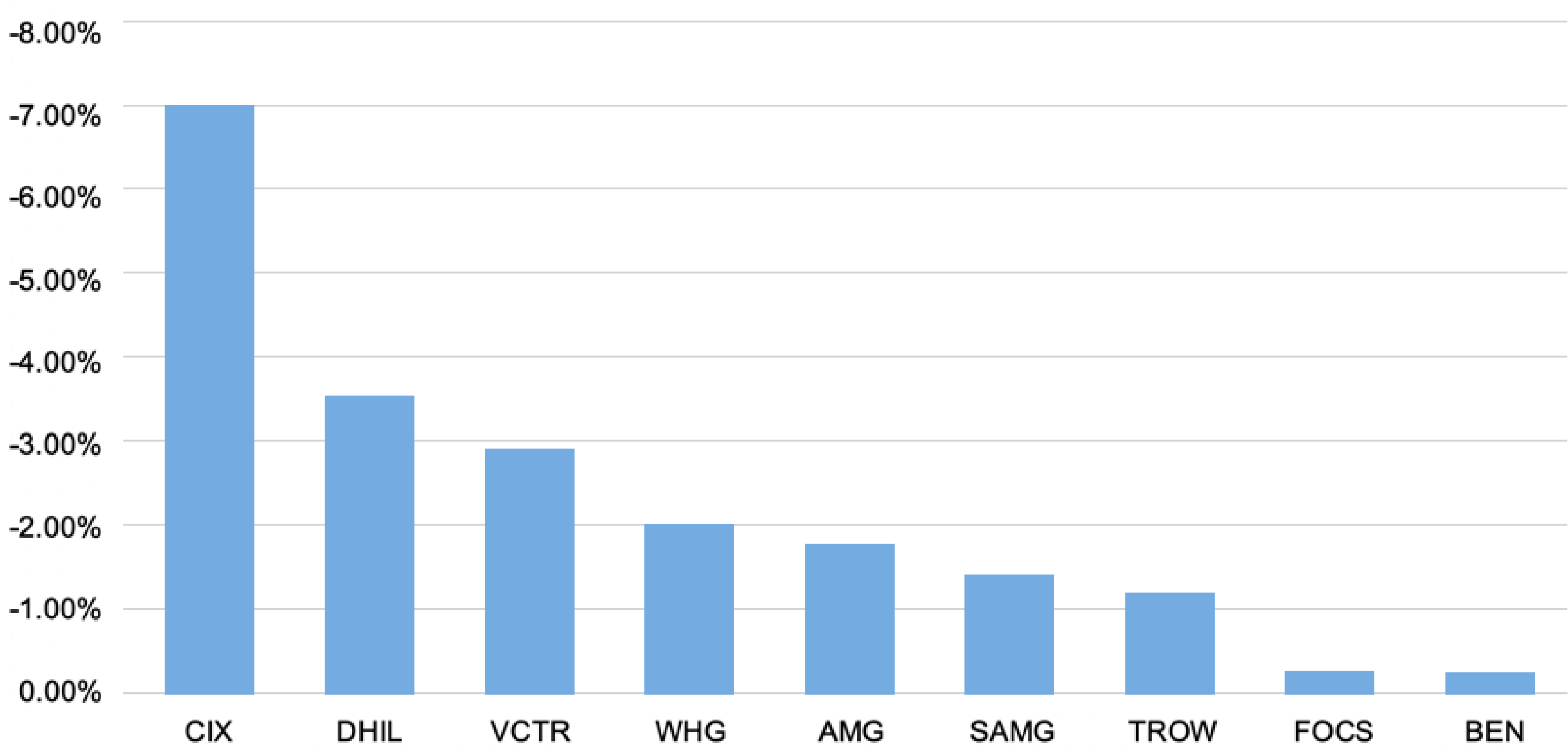
Net Debt to Annualized Adjusted Q3 EBITDA



NOT ALL RIA BALANCE SHEETS ARE CREATED EQUAL

Most RIAs (public and private) have completely unremarkable balance sheets, but there are exceptions. CI Financial and Focus have actively used debt to finance acquisitions in recent years. CI Financial's debt has been negatively affected (increased) by changes in the CAD/USD ratio and is making moves to reduce leverage. Focus has not indicated similarly.

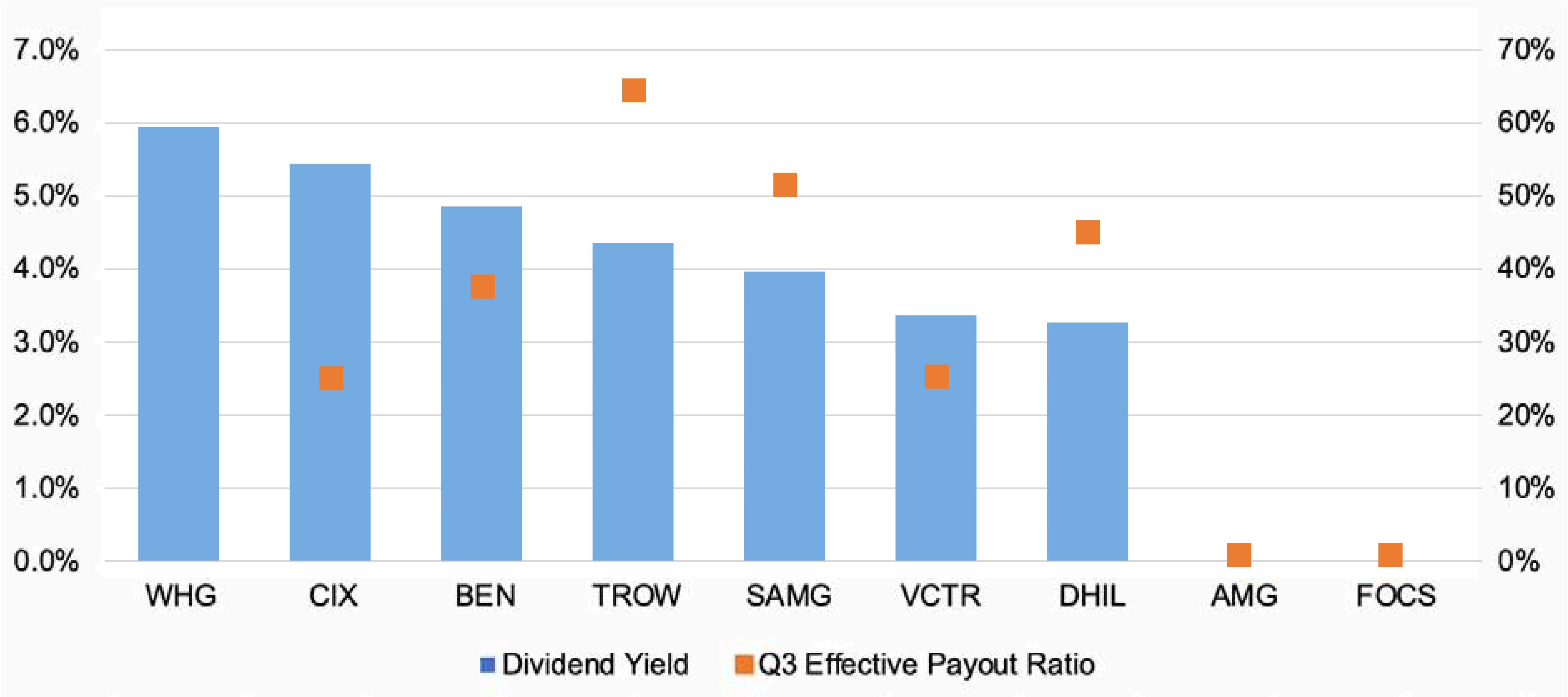
Net Redemptions (y/o/y % Change in Fully Diluted Shares Outstanding)



WHAT TO DO WITH ALL THAT EBITDA?

Many public RIAs boast about how much cash they return to shareholders in the form of buybacks. However, a lot of that redemption activity is undone by equity compensation plans (which then are added back as a non-cash charge...). We look at net changes in fully diluted shares outstanding for insight as to the real impact of redemption plans. CI Financial, Diamond Hill, and Victory appear to have the most aggressive buyback programs in place.

Dividend Yield and Payout Ratio Based on 9/30 Quarter Performance



DIVIDENDS ARE APPEALING, BUT ARE THEY SUSTAINABLE?

As valuations have slid, the dividend yield on several public RIAs has risen into the mid-single digits. Unfortunately, the slide in earnings makes payout ratios higher than some people would expect to be sustainable. In contrast to CI Financial, Focus Financial has neither active redemption activity nor dividend payments. FOCS has put its discretionary capital into buying RIAs instead of direct returns to shareholders. That was a tough strategy in 2021, but if private transaction multiples ease, it could present a few opportunities. Note: Westwood Holdings (WHG) did not report profits in Q3, so its payout ratio is not meaningful.