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INVESTMENT BANK

Investment Banking Fundamentals in Wealth Management

Wealth Management Investment Banking Overview

The Registered Investment Advisor (RIA) space is one of the fastest growing segments in the wealth management industry. Cerulli[1] reported that the combined hybrid and independent RIA channel in 2024 represented a 10-year CAGR of almost 9% – more than 5x retail bank broker dealers and almost 7x the growth of national and regional broker dealers. Merger and acquisition activity and investments into RIAs are occurring more than ever before. For those RIAs seeking to sell or grow, or secure a business-boosting capital infusion, it is important to educate yourself on the basics.

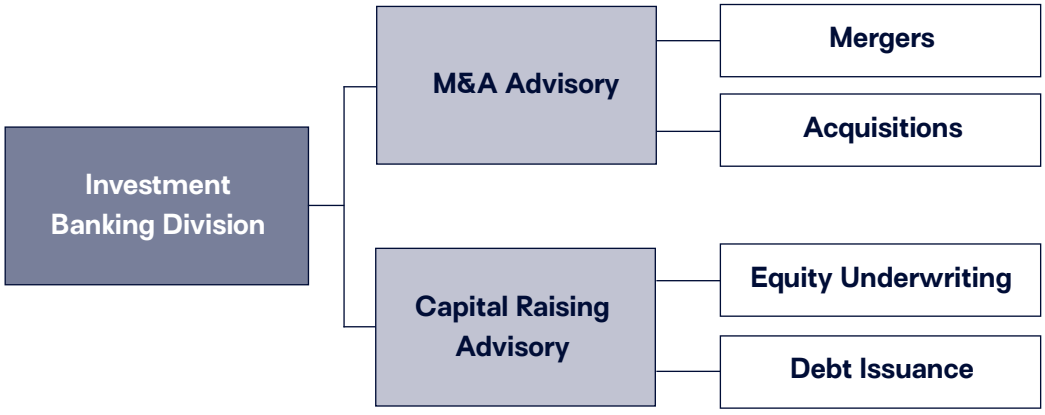
Channel	Relative Growth (versus RIAs)
Hybrid & Independent RIAs	Baseline
Retail Bank Broker Dealers	>5x slower
National & Regional Broker Dealers	~7x slower

Investment Banking Activity in the Wealth Management Industry

A clear symbol of the evolution of the wealth management industry is the incorporation of increasingly sophisticated activities and services, notably investment banking, which is resulting in innovative and unprecedented solutions for advisors and their firms.

What is Investment Banking?

Investment Banking is the segment of the financial services industry that offers strategic advisory services to corporate and institutional clients on mergers and acquisitions (M&A) and underwriting.



[1] Cerulli Associates (November 2024). U.S. RIA Marketplace 2024: Redefining the Framework of Independence.

How Does Investment Banking Work?

Investment banks serve as financial intermediaries, or liaisons, by managing a transaction process and negotiating the terms of a deal on behalf of a client to ensure the outcome is in the client's best interests.

At a high level, investment banking has two core practices: **Mergers and Acquisitions, and Underwriting.**

Core Functions of Investment Banking

Mergers & Acquisitions

Advising companies on buying, selling, or merging with other businesses

Underwriting

Helping companies raise capital by issuing securities

Mergers & Acquisitions

- Mergers and Acquisitions, or M&A, is an umbrella term referring to the consolidation of two companies.
- The M&A function in investment banking refers to the strategic advisory services provided on behalf of the acquirer or the seller.
- In an M&A assignment, an investment bank helps its client navigate the complexities of a deal to ensure a favorable outcome is reached (i.e., an outcome in the "best interests" of the client).

While the terms "merger" and "acquisition" are often used interchangeably, there is a distinction between the two:

Merger	A merger is the consolidation of two companies
Acquisition	In contrast, an acquisition is the purchase of one company by another

Buy-Side Versus Sell-Side

Buy-Side M&A

On a "buy-side mandate," investment bankers serve as advisors to the acquirer (i.e., the buyer) and must determine if the client's proposed transaction is reasonable. The priority is to ensure the offer price is justified to reduce the risk of overpaying for the target asset.

The investment bankers manage the deal process, including, negotiating the valuation, structure and terms of the transaction, conducting rigorous "due diligence," and helping to close the deal.

Sell-Side M&A

In contrast, investment bankers on a "sell-side mandate" are hired by the seller to advise on the deal and ensure the offer price is fair, without "money left on the table."

On behalf of the seller, the investment banking team builds a list of potential buyers and manages the sale process from start to finish until the deal closes.

Due diligence refers to the investigation, audit, or review of financial records and other information relevant to a deal prior to transaction close. It helps buyers understand a target company's strengths and weaknesses and identify potential risks and liabilities.

Examples include:

Financial due diligence
Analyzes a company's financial records, including balance sheets, income statements, and cash flow

Tax due diligence
Reviews a company's tax records to identify potential liabilities and tax-efficiency opportunities

Legal due diligence
Reviews contracts, leases, and other legal documents to assess legal risks

Technology due diligence
Assesses a company's technology assets to identify risks and liabilities

Securities Underwriting

In this situation, the purpose of an investment banker is to raise capital on behalf of a client with the most favorable terms. Capital raises can take the form of equity or debt and can be in the form of a public or private deal, depending on the type of company.

The trade-off in raising capital via equity requires giving up a percentage of ownership (and risk of dilution to existing shareholders), while debt issuances require a contractual commitment to pay the lender interest and repay the principal amount when it is due.

Underwriting in investment banking means matching corporations in need of capital, either in the form of equity or debt issuances, with investors.

The capital raising process tends to be complicated with numerous considerations, legalities, and risks, such as timing and market conditions.	**The role of an investment bank** in underwriting is to ensure the terms are structured with the best possible terms for the issuing firm.

Strategic Versus Capital Partnership

When evaluating a potential investor or partner, it is important to note the differences between strategic and capital partners. A strategic partner collaborates with you to achieve shared goals, offering expertise or resources, while a capital partner invests financially, prioritizing returns on their investment.

An example of a strategic partner would be a company partnering with a technology provider to integrate new software, or a manufacturer partnering with a distributor to expand into a new market. In these cases, the partnership is strategic because both partners remain independent.

There are many different types of capital providers, including venture capital, private equity, non-bank lenders, traditional banks, family offices, etc, and the degree to which capital is truly strategic will vary from firm to firm. For example, a capital partner could be a venture firm investing in a startup, or a private equity firm acquiring a company with the goal of improving performance and selling it at a higher price.

M&A For Growth

Companies can grow organically, or "on their own" without merging or acquiring, by increasing their revenue growth rate and profit margins through their internal initiatives, such as cost-cutting, to improve their operating efficiency, for example.

If a company opts to engage in M&A for the sake of growth, that is called inorganic growth, i.e. achieving growth by acquiring or merging with other companies to increase market share and access new markets. Companies pursue inorganic growth to access things like human capital and new capabilities, to operate more efficiently, to scale, or take advantage of synergies resulting from an acquisition.

The benefit of M&A is called "synergies," which can be categorized as either revenue or cost synergies. M&A is an avenue for companies to explore accelerated growth beyond what can be accomplished organically.

Our team is here to help you take the next step.

Contact our Dynasty Investment Banking team to explore how we can support your firm with capital solutions, strategic transactions, and long-term growth planning.

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