

Behind the Deal

How a \$1.6bn Virginia deal came together



Inside the deal between a regional bank and an RIA that created a \$7bn firm

ANDREW FOERCH, REPORTER, CITYWIRE RIA

Divestiture was the name of the game for Atlantic Union Bank.

The Nasdaq-listed regional bank had amassed a respectable RIA subsidiary with roughly \$1.6bn in assets under management by acquiring and consolidating three Virginia advisory practices in the mid-to-late 2010s.

One of those was Dixon, Hubbard, Feinour & Brown (DHFB), a Roanoke-based firm with roots dating to 1981. The bank went on to merge its disparate RIA subsidiaries under the DHFB brand.

Recently, Atlantic Union narrowed the focus of its wealth management arm. President and chief operating officer Maria Tedesco said the bank decided to concentrate its efforts on developing the 'core businesses' of trust and asset management, private banking and investment brokerage.

'We want to direct more of our time, talent, and resources on what we are great at by zeroing in on our core wealth businesses,' Tedesco said.

Swapping equity

Atlantic Union executives sat down with the managing members of Cary Street Partners, a Richmond-based RIA that had long used Atlantic Union as its treasury bank.

Deal talks emerged 'organically,' according to Cary Street CEO Joseph Schmuckler. 'Understanding culturally what they were trying to do and reading the tea leaves as to what they were saying to the marketplace, we figured it was it was a good opportunity.'

The result is Cary Street's largest acquisition ever. The firm will absorb DHFB to create a \$7bn RIA serving 6,000 clients from 16 offices in Virginia, New Jersey, Tennessee, North Carolina and Texas. The financial terms of the deal, which is expected to close by the end of June, were not disclosed, but Schmuckler said the

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acquisition was financed entirely by equity, with no cash component. Several DHFB principals will receive equity in Cary Street.

The deal doesn't end there. Although Atlantic Union wanted to divest its RIA subsidiary, the bank still saw value in the RIA space. That's why, in conjunction with the DHFB sale, the bank bought back a minority stake in Cary Street.

The size of the stake was not disclosed, but Schmuckler said the RIA retains full internal operational control as well as its registration as an investment advisor. Under the Bank Holding Company Act of 1956, a registered investment advisor would become a banking entity – and would be regulated as such – if more than 25% of the company's equity is owned by another banking entity.

By offloading the subsidiary but becoming a minority stakeholder, Tedesco said, the bank's exposure to the fast-growing RIA industry 'is now positioned in a way to maximize the return on the original investment with a partner that is 100% focused on supporting and growing RIAs.'

And although Atlantic Union's involvement with Cary Street will be less intensive, it won't be hands-off: Tedesco is slated to join Cary Street's board.

Upward trajectory

Schmuckler said he sees an opportunity to grow Cary Street into a national RIA. With a spate of recent deals under its belt – including the acquisition of Florham Park, NJ-based National Wealth Management earlier this year – M&A has become an increasingly important piece of that growth strategy.

'We want to position ourselves to scale and grow, not only through organic growth and serving our advisors and clients, but also by acquiring other advisors and firms that are looking to sell,' Schmuckler said. 'We have our own internal transitions and integration team. We've got the backbone of an institution in place where we can transition and integrate very easily. I think this [DHFB] deal is evidence of that.'

Schmuckler hopes to strike 'one or two' more deals before 2022 draws to a close, but was sure to distinguish Cary Street's approach to M&A from that of the serial acquirers it competes with.

'We want to do more, but we want to do the right deals,' he said. 'It's not important to us to show up having done 10 deals a year. That's not who we are. We're trying to build an organic organization with a single culture. To do that, we need to find the right partners, the right teams, and the right advisors. That's what we'll continue to do.'