

The logo consists of the text 'Fi360' in a white, sans-serif font, centered within a white square border. The background of the entire image is a gradient from orange at the top to red at the bottom.

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John Hancock[®] Investment Management



Retirement Firm M&A: What You Need To Know

Dick Darian
Wise Rhino Group

June 25, 2020

FI360 Webinar Series

Today's Discussion

Consolidation Impacting all Financial Services

- Long standing but accelerating
- Each segment in a different inning
- Collisions and challenges

Retirement Firm M&A: What to *know*

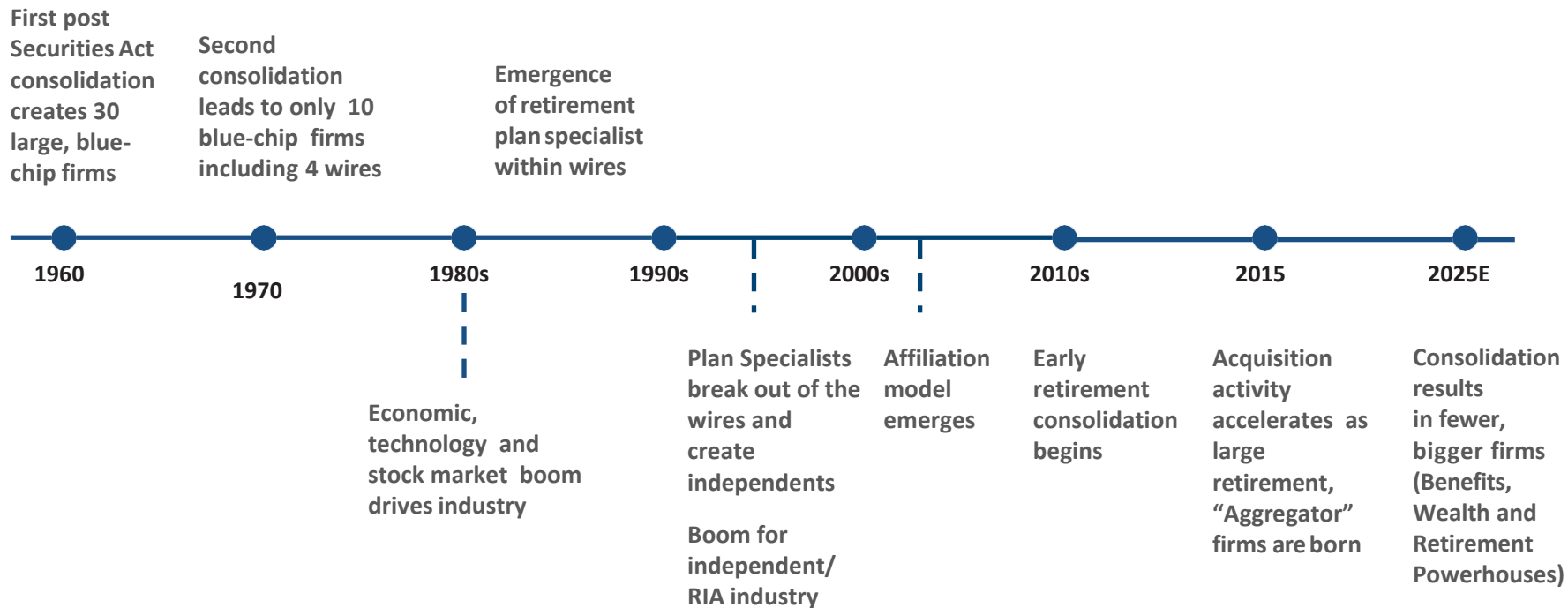
- Lanes are blurring, game is changing
- Drivers of acceleration
- Wealth RIA M&A
- Insurance Brokerage M&A
- Going Rates by Firm Type

Retirement Firm M&A: What to *do*

- Buyers Evolving Table Stakes
- What Strategy is Most Appropriate For You?
- Culture or Cash
- Value Drivers
- Finding Help
- Focus on Your business



History Repeats Itself



Source: WRG/Retirement Research



Consolidation Across the Board

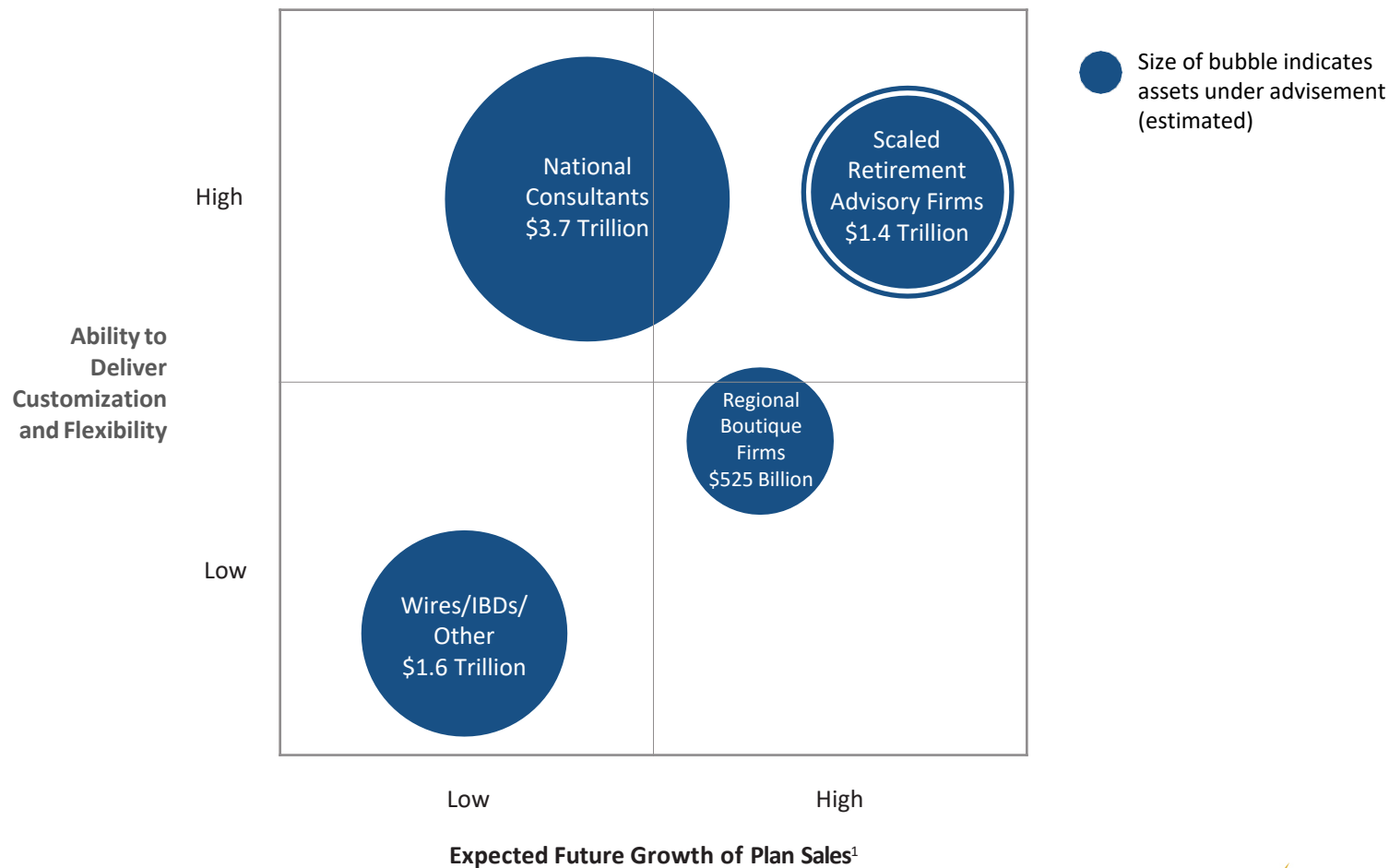
Fewer and Larger

DC Record Keepers	<ul style="list-style-type: none">• Scale now equals 7m participants• MassMutual next up
Broker-Dealers	<ul style="list-style-type: none">• Less relevant in the retirement world• Transactions continue LPL-NHP, Stifel-Barclays, RJ-Deutsche
Wealth RIA Firms	<ul style="list-style-type: none">• Hightower, Dynasty, Focus Financial, United Capital, Mariner• Validated with IPOs and Sales to PE
Investment Consultants	<ul style="list-style-type: none">• AON Hewitt – Willis Watson Wyatt 2021 \$1.5T• Mercer – Pavilion, Summit \$1.7T
Retirement Advisory Firms	<ul style="list-style-type: none">• 15 Aggregators now control \$1.4T in DC AUA• 75 Regional Elite Firms control \$500B DC AUA• Remaining 35 firms \$ 525B.



Bubbling Up

Retirement AUA by Firm Type



Source: Wise Rhino Group, RLF 2019 Recordkeeper Sales and Retention Survey

¹ Future growth positioning determined by survey of RLF Recordkeeper and DCIO members



Drilling Down

78% of Retirement Assets with 132 Firms

Firm Type	# Firms	# Advisors	AUA (b)/%	Example
National Consulting Firms	7	N/A	3,645/49%	Mercer, AON
Regional & Boutique Consulting Firms	35	N/A	525/7%	PEI, Curcio Webb
Aggregators (RIA, Benefit and Platforms)	15	2,560	1,273/17%	CAPTRUST, OneDigital
Regional Elite (> \$5m rev)	75	1,772	352/5%	Compass, VisionPoint
Elite (> \$1m rev)	575	6,256	743/10%	Alpha, Clearview
Non-Elite	1,550	2,725	529/7%	N/A
Wire, Bank, Insurance BD	3,892	8,738	357/5%	N/A
Total	6,162	22,051	7,424	



Retirement Advisory Firms

Keeping You Up At Night



Fee Compression

- All Financial Services Impacted
- Doing More for Less
- Commoditization of Services



The Fight to "Own" the Participant

- Required for Revenue
- RK Focus
- Overlapping Value Prop



Health, Retirement & Wealth

- Convergence
- Client Holistic Focus
- Expand/Diversify for Margins



Consolidation

- Recordkeepers, BDs, Investment Consultants 7th inning
- Wealth and Retirement Advisors 3rd inning



Bridge to Wealth

- From want to need
- In-Plan Advice Capability
- Technology Gap



Human Capital (You)

- Age
- Career Goals/Opportunities
- Execution



Scaled Competitors

- Increase in Numbers
- Professionally Managed
- Well Capitalized



Broader Threats

- Legislation
- Other DC Players/DCIO
- Amazon/Google



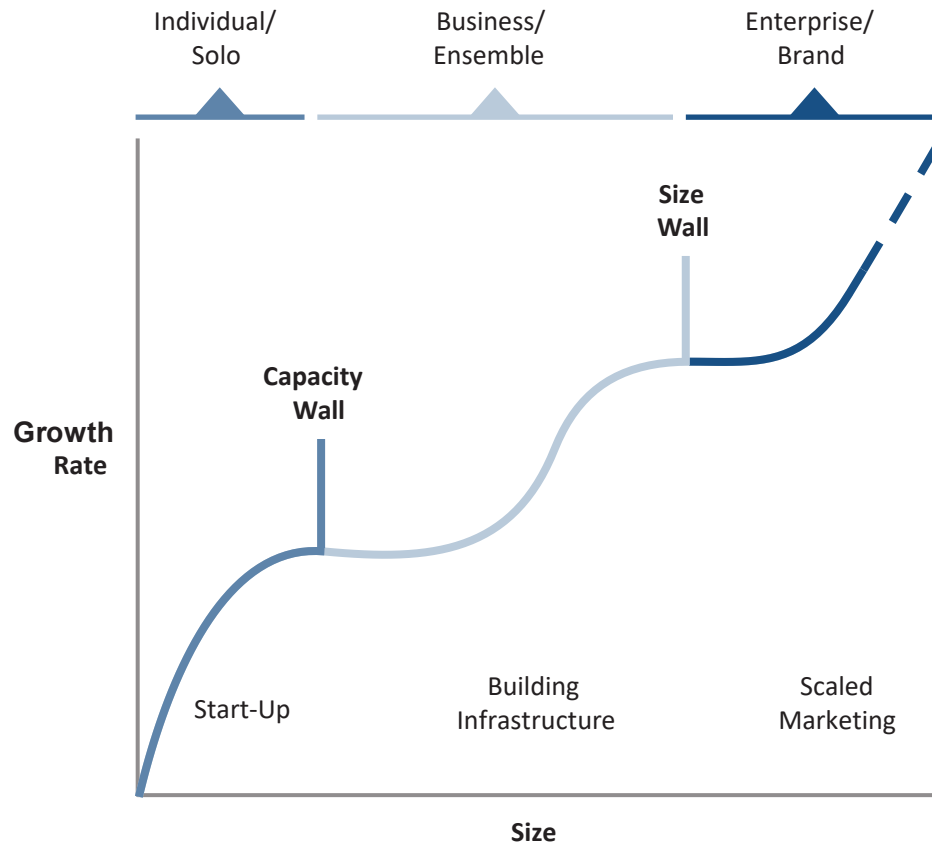
Timing of Current Market

- Current Multiple Levels
- Buyer to Seller Ratio
- Economy



Larger Advisory Firm Catalyst

Capacity, Complexity and Growth Walls



Source: Kitces.com

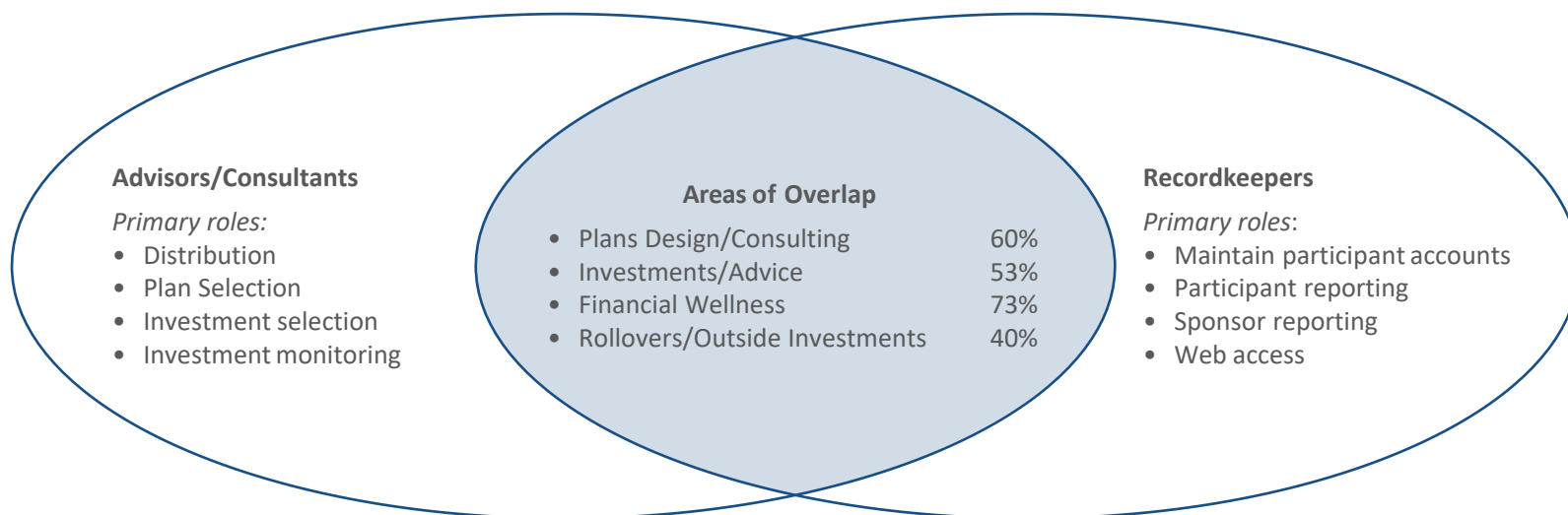
When evaluating the opportunity to sell, 100% of Regional Elite firms ranked Fit/Match/Culture of the acquiring firm as their most important criteria.

Source: WRG/RLF Regional Elite Survey



Collision Course

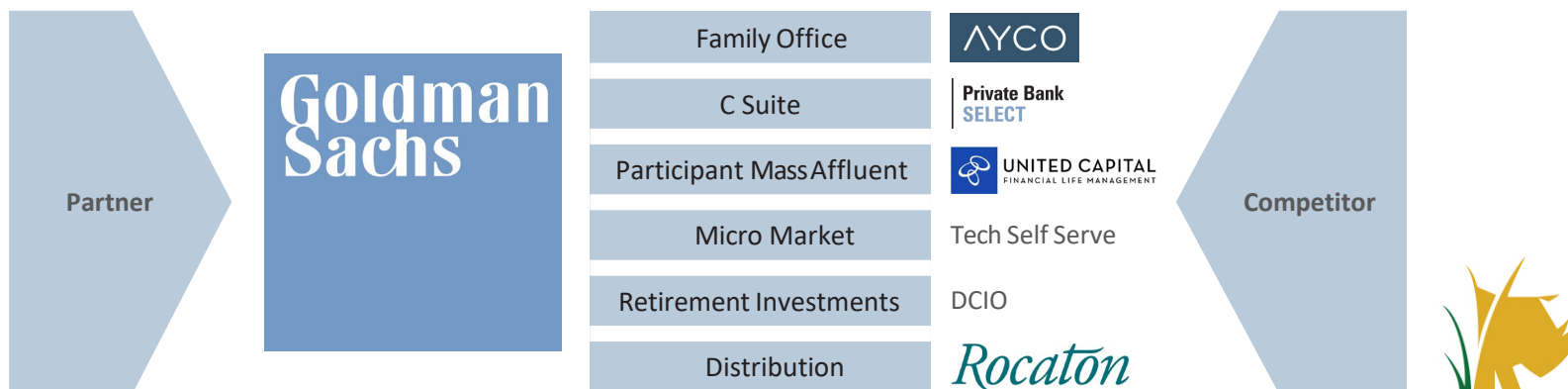
Percent of Recordkeepers that Indicate Overlap with Advisor/Consultants on Specific Services, 2019



n = 12

Source: RLF 2019 Recordkeeper Sales and Retention Survey and RLF Research

Building a New Business Model, 2019



Today's Discussion

Consolidation is Impacting the Entire Financial Services Industry

Retirement Firm M&A What to *Know* Now

- Who are the buyers?
- Drivers of acceleration
- Wealth RIA M&A
- Insurance Brokerage M&A
- The going rates
- Pandemic Impact

Retirement Firm M&A What to *Do* Now

- Strategic considerations
- Culture over cash
- Value drivers
- Sell-side process
- The transaction
- Preparation and representation
- Mind your business



Retirement & Wealth Advisory Firm Buyers

RIA Aggregators			Insurance Brokerage Strategic			Insurance Brok. Opportunistic			Affiliate Platforms	
Branded Strategic Acquirers with core Retirement and Wealth			Branded Strategic Acquirers with P&C and Benefits Primary Focus			Branded Opportunistic Acquirers with P&C and Benefits Primary Focus			Affiliated tools, services and intellectual capital	
Firm	AUA	FAs	Firm	AUA	FAs	Firm	AUA	FAs	Firm	AUA
CAPTRUST	\$301b	167	NFP	\$295b	157	CBIZ	\$42b	25	RPAG	\$600b
Sageview	\$110b	68	Gallagher	\$56b	65	USI	\$22b	19	GRPF	\$54b
			Lockton	\$58b	37	Alliant	\$11b	11	Pensionmark	\$22b
			HUB Int.	\$37b	32	Alera Group	\$2b	7	Resources	\$45b
			One Digital	\$45b	34				SRP	\$12b
			MMA	\$23b	15					
Total	\$411	235	Total*	\$514b	340	Total	\$77b	62	Total**	\$733b

National Consultants		Regional/Boutique Consultants		Wealth Management Consolidators		Wire House Acquirers	
Seven firms with largest retirement practices by AUA		Largest of the next seven consulting firms		Strategic Wealth platforms and acquirers		Wire House firms who acquire	
Firms	AUA	Firm	AUA	Firm	AUA	Firm	AUA
Mercer	\$1.70T	Russell	\$74b	Focus Financial	\$95b	Morgan Stanley	\$180b
Aon Hewitt	\$1.10T	Pension Alliance	\$51b	Hightower	\$55b		
Willis Towers Watson	\$518b	PEI	\$49b	Blue Spring Partners	\$12b		
Callan Associates	\$228b	Milliman	\$34b	Dynasty Financial Partners	\$25b		
NEPC	\$215b	Buck	\$31b	Mariner	\$22b		
Segal Rogers Casey	\$86b	Ellwood	\$29b	United Capital	\$20b		
Wilshire	\$63b	Marco	\$27b				
Total	\$3.91T	Total	\$295b	Total	\$229b	Total	\$180b

Buy-Side Table Stakes

Educated Sellers will demand more from Retirement & Wealth Aggregators



Vision and Mission

- Clear roadmap to organic and inorganic growth
- Ability to articulate a clear vision around navigating the changing landscape



Financial Firepower

- Capital and support to grow and scale towards being a strong operating company



Expertise/Brand

- Breadth and depth of service offering — retirement, advice, wealth, benefits
- IBM



Best in Class/Scalable Tech Platform

- Back-Office, Middle-Office, Retirement, Wealth, Participant Advice
- Proven systems and workflows and processes



Proven Post-Merger Integration Model

- Dedicated and effective team
- Seamless Integration



Cultural Fit Assessment

- Best Fit
- Culture

Source: WRG



The Bigger Picture

Seeing the Larger Workplace Opportunity

Institutional Retirement

Retirement advisory fees under pressure

\$270



\$80

Competitive fee pressure exacerbates the problem

3(38) = 5 bps

In response firms must:

- Get more business
- Scale
- Make a pricing play
- **Find new sources of revenue**

The Participant

74% of plan sponsors feel a strong sense of responsibility for employee financial wellness.

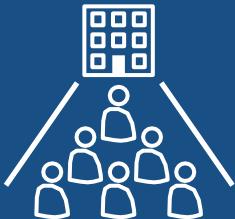
95% of participants acknowledge they would feel confident in making the right financial decisions with professional help.

In response firms must:

- **Build the right tech stack**
- Scale service

Source: <https://am.jpmorgan.com/us/en/asset-management/gim/mod/insights/understanding-plan-sponsor-goals>; <https://www.aboutschwab.com/schwab-401k-participant-study-2019>

The Individual



Leveraging worksite relationships to branch into:

- Banking
- Payroll
- All other financial needs

In response firms must:

- Recenter strategy/approach around the workplace
- Develop partnerships with strategic fit products
- Be prepared for consumer tech disruption

Source: WRG/RLF Research



The Game is Changing

The Bridge from Retirement to Wealth

Retirement and Endowments & Foundations

\$380B AUA



Wealth

Wealth Management

- 39% of new wealth assets come from “Bridge”
- Firm is not in rollover business
- Target client \$3-\$10 mil investable assets

\$18B AUM

Advice

- 800 of 2,600 plans have adopted advice
- PAS offers advice for ALL employees and is
 - Priced based on per participant flat fee
 - Conflict = FREE
 - Holistic
- Survey of PAS participants:
 - 95% feel more confident and knowledgeable
 - 90% take action of advice
 - 93% think PAS is valuable benefit
 - **90% would recommend PAS/ CAPTRUST to co-worker**



“We are targeting 129,662 middle market retirement plans and 25,100 E&F opportunities. Even at our size, we have barely scratched the surface of those two business lines—no need to venture into non-core business lines.”

Managing Director | Advisor Group

Source: CAPTRUST



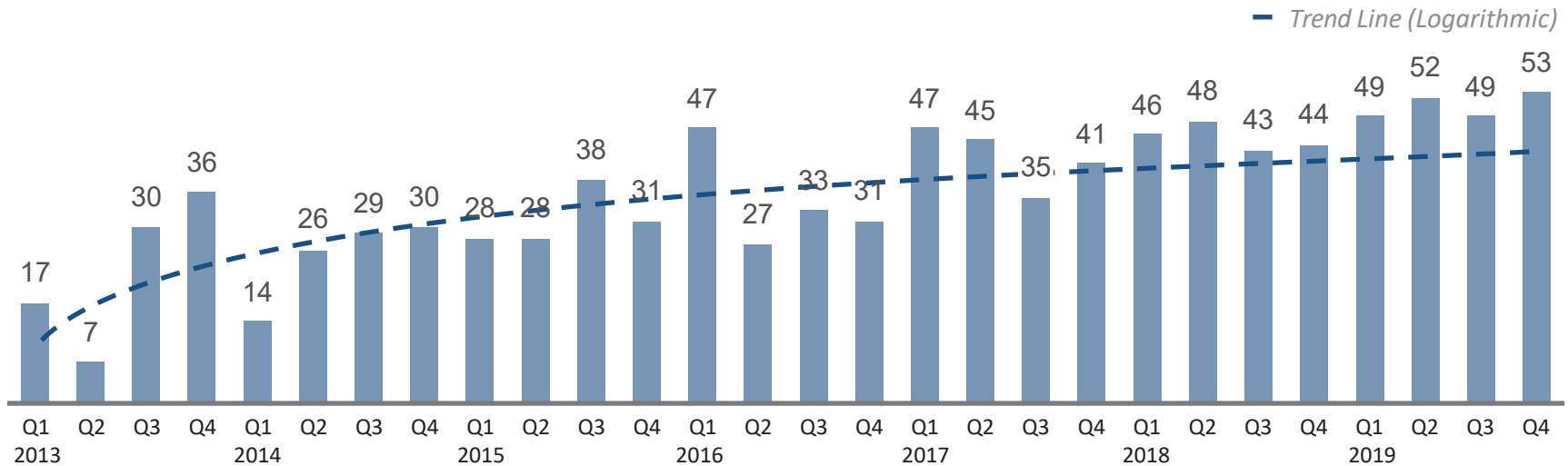
Drivers Increasing Retirement Advisory M&A

- ▶ Buyers are Bigger, Stronger, Well Capitalized
- ▶ Larger Targets
- ▶ Validated Value
- ▶ Better Business Practices
- ▶ Access to Capital
- ▶ Demographics
- ▶ Economic Climate



Wealth RIA Consolidation Continues

RIA M&A Activity, Deal Volume, Number of Deals Per Quarter, Q1 2017 to Q4 2019



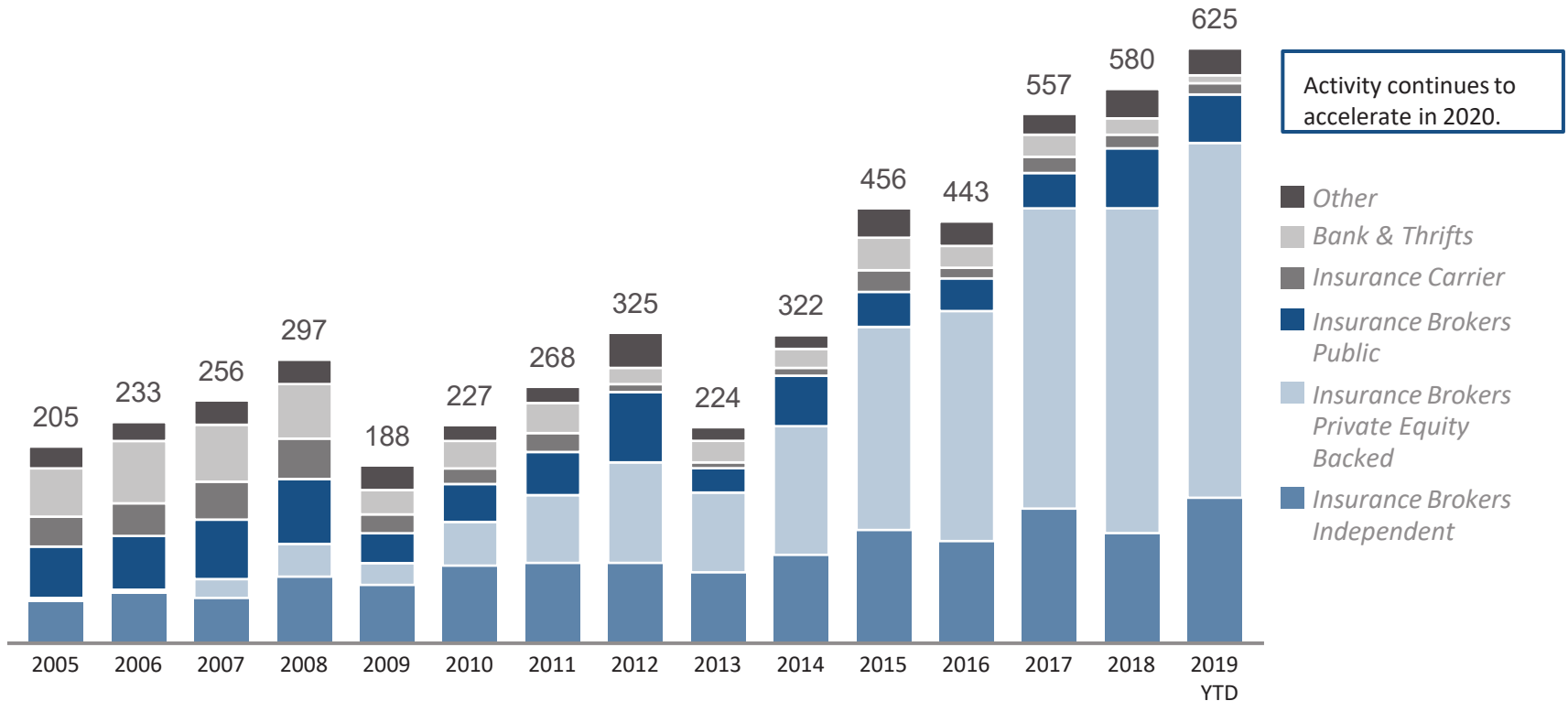
Source: Company Reports, SEC IARD, ECHELON Partners Analysis

2019 reached a record 203 total deals and activity continues to accelerate in 2020



Insurance Brokerage Consolidation Continues

Announced U.S. Transactions by Buyer Type, 2005-2019



Source: MarshBerry

Platform: High level transaction for a buyer, typically due to a new geography niche, expertise, size, talent, etc.



Retirement Advisory Firm Multiples – The Peak

Multiple Range Chart and Assessment for Retirement/Wealth Advisory Firms, 2019 Q4

Retirement & Wealth Firm Type	Description	Multiple Range
Fully Integrated Retirement & Wealth Advisory Platform with Affiliates (\$10M Rev+)	Independent centralized platform and affiliate firm network focused on retirement and wealth advisory.	9.75 - 10.25X
Retirement & Wealth Advisory Affiliated Firms - Roll-Up - No Platform (\$10M Rev +)	Separate independent firms joined in integrated purchase but no centralized platform add-on.	9.25 - 9.75X
Retirement & Wealth Advisory Firm - Regional Elite (\$8M Rev +)	Regionally scaled ensemble business typically with multiple offices.	8.75 - 9.25X
Retirement & Wealth Advisory Firm - Elite (\$2-8M Rev)	Elite single-office business.	8.25 - 8.75X
Retirement Advisory Firm (\$750K-2M Rev)	Emerging single-office business.	6.0 - 8.25X
Retirement Advisory Practice/Book (< \$750K Rev)	Practice/Book of business.	4.00 - 6.00X

Source: WRG



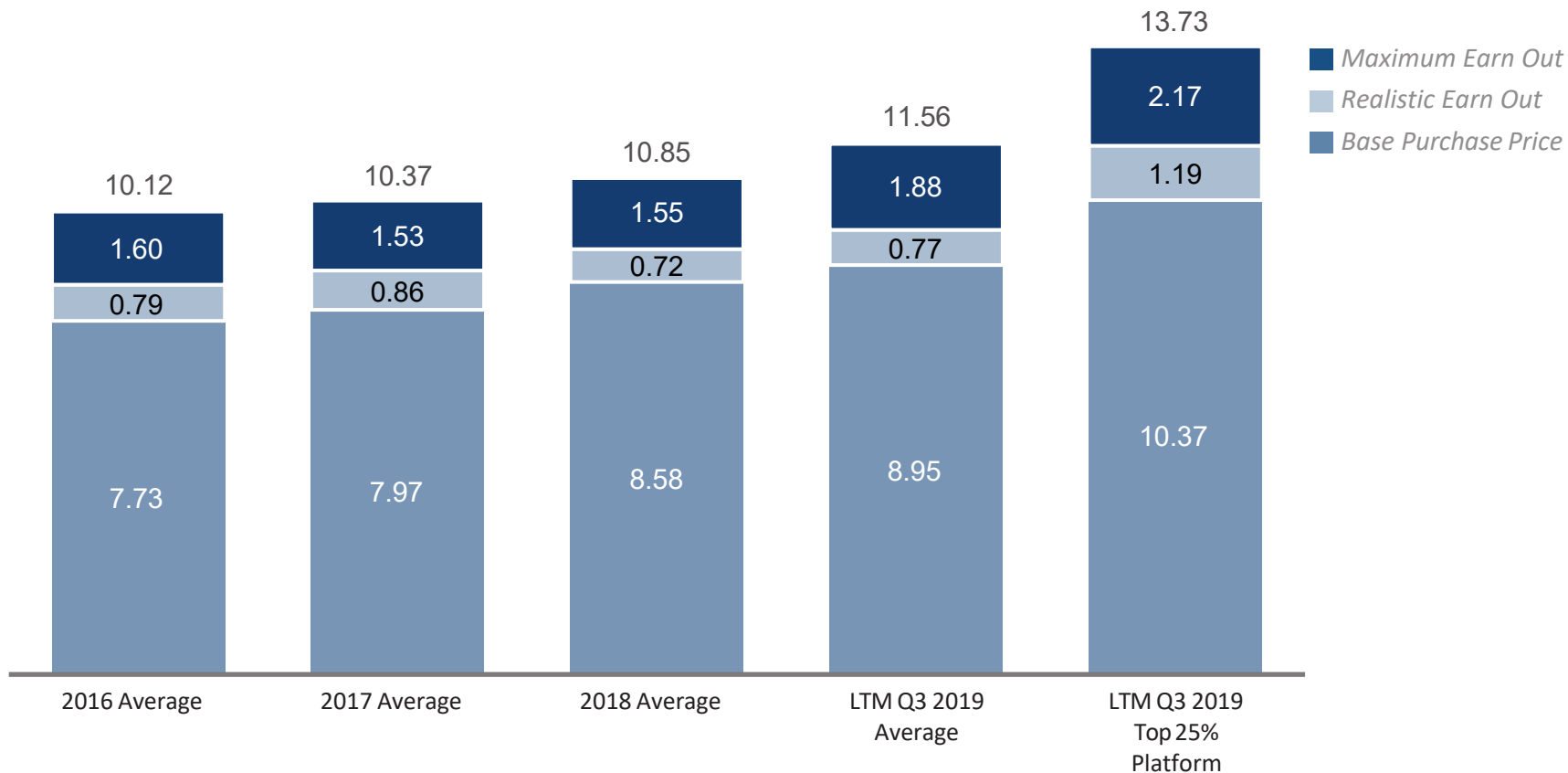
Pandemic Impact on M&A

- ▶ M&A cycles tend to follow economic ones
- ▶ Different than the Great Crisis of 2009
- ▶ Valuations are based on historical cash flows or a forecast of future earning
- ▶ Deals done in weaker economies have performed better
- ▶ More time and more scrutiny



In-Line with Averages in Other Verticals

MarshBerry's Valuation Comparables Maximum Purchase Price as a Multiple of EBITDA, 2016-2019



Source: MarshBerry



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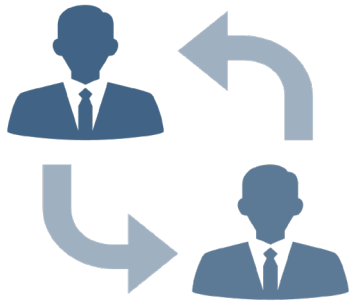
Retirement Firm M&A
What to *Know* Now

Retirement Firm M&A
What to *Do* Now

- Strategic considerations
- Culture over cash
- Value drivers
- Sell-side process
- The transaction
- Preparation and representation
- Mind your business



What Strategy is Most Appropriate for You?



Internal Succession

- ▶ Leader to run the firm
- ▶ Staff to manage clients
- ▶ Capital



Merge & Stay Involved

- ▶ Merge or Scale
- ▶ Merge to Buy
- ▶ Partner Type



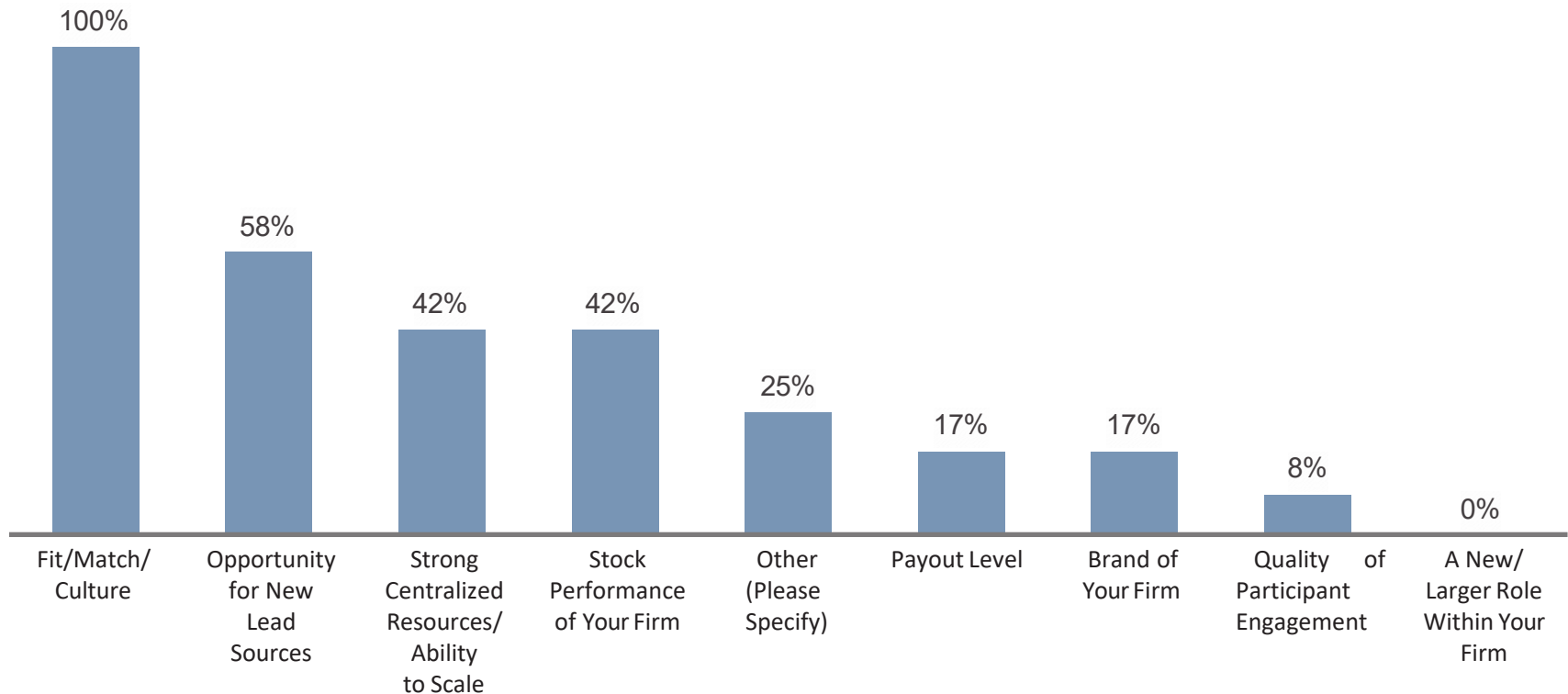
Sell & New Vision

- ▶ External Sale
- ▶ Buyer Type



Culture Over Cash

Aggregator Firms' Opinion on the Top Three Reasons a Prospective Firm Would Sell



n = 11

Source: RLF/WRG 2020 SRAF Survey



Think Like a Buyer

Value Drivers

Firm Service Models

- ▶ Retirement Consulting
- ▶ Participant Engagement/Advice/Managed Accounts
- ▶ Wealth Advisory
- ▶ Employee Benefits+

Fundamental Drivers

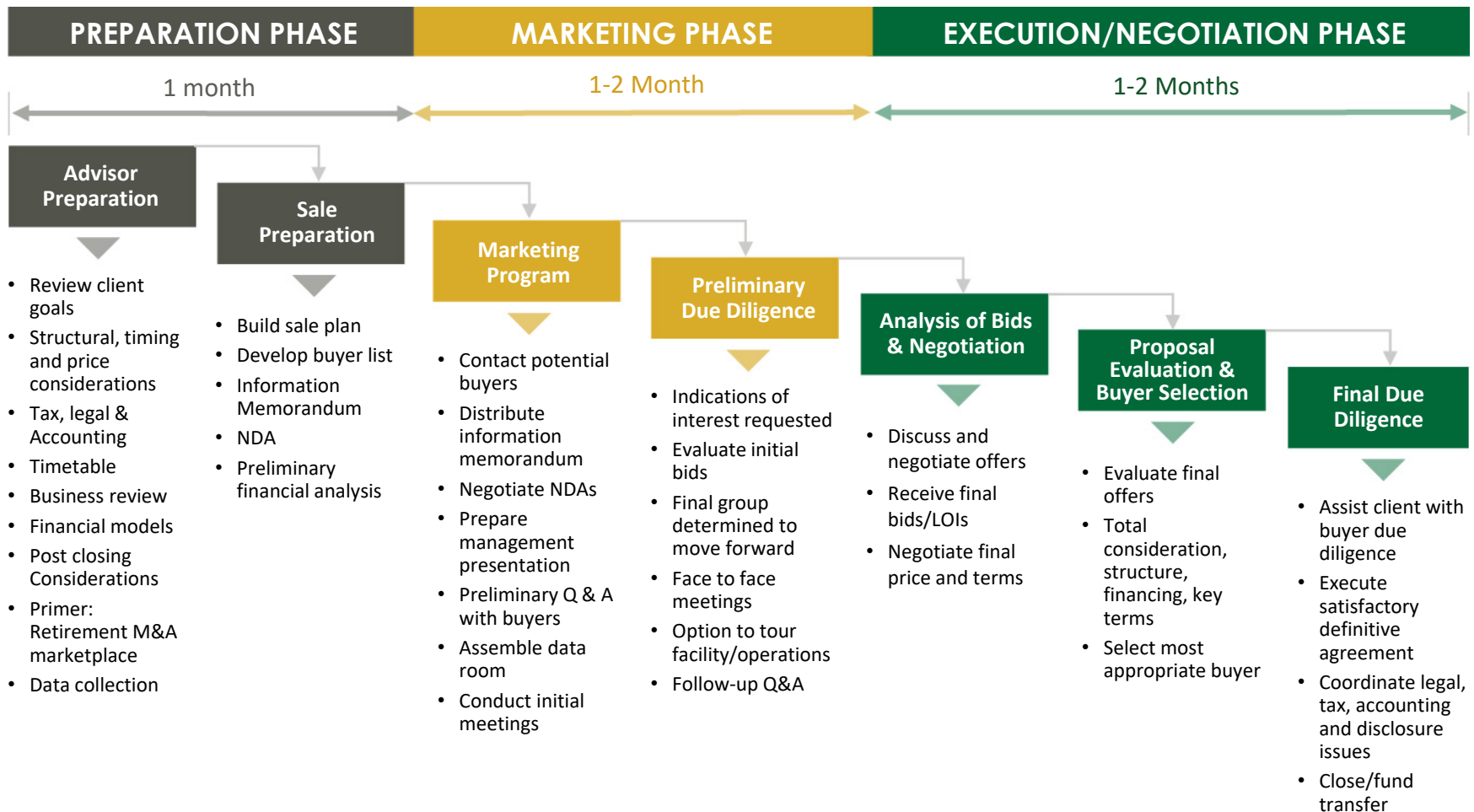
- ▶ Revenue Size
- ▶ Predictable and Recurring Revenue and Trend Line
- ▶ Margin/EBITDA and Trend Line
- ▶ Client Demographics/Concentration Risk/Tenure
- ▶ Team Capabilities, Recognition and Brand

Variable Drivers

- ▶ Leadership Capabilities
- ▶ Geography
- ▶ Breadth of Services
- ▶ New Business Process and Success
- ▶ Cost Structure/Scalability/Technology



Sell-Side Process



The Transaction

- ▶ **Pro Forma EBITDA Calculation**
- ▶ **Multiple of EBITDA**
- ▶ **Guaranteed Proceeds at Close**
- ▶ **Deferred Proceeds – Shared Risk**
- ▶ **Cash and Stock**
- ▶ **Earn Out Contingencies**
- ▶ **Owner Compensation**



Representation

Outside experts bring **discipline** to the selection process to help firms make **better-informed decisions**.



Oversee the preparation of **detailed information on the business**, develop important **financial models**, and help **appropriate expectations**



Train the partner team to craft and tell a compelling and consistent story about the firm to underscore its value



Hold a competitive auction with suitable potential partners to increase the number of bidders, and run detailed models to evaluate the reasonableness of deal terms under different economic scenarios



Look at deal/no deal scenarios on an after-tax basis to guide the selection, plus negotiate extensively and help improve the probability of closing



Where Does An M&A Advisor Add The Most Value

Survey of Advisory Firm's

- ▶ **Managing the overall sell-side engagement process**
- ▶ **Negotiating the deal**
- ▶ **Sourcing buyers**
- ▶ **Limiting distractions to the owners/management team**
- ▶ **Establishing the seller's credibility**



Mind Your Business

- ▶ **Prioritize Business Management. Have a Plan.**
- ▶ **Know Your Firms Gaps and Liabilities Now – and Focus on the Fix**
- ▶ **Learn To Think Like A Buyer**
- ▶ **Be a Student**
- ▶ **Engage Partners Early**



Wise Rhino Group

Our services for retirement & wealth advisory firms include:

- **Merger & Acquisition Advisory**
- **Valuations & Business Reviews**
- **Business Strategy & Planning**
- **Perpetuation Planning**
- **Industry Analytics & Perspectives**

Partner Team:

- **Peter Campagna**
- **Dick Darian**
- **Bob Francis**

23 sell-side transactions and 18 buy-side transactions since 2018.



THANK
YOU
