Comparison of Strategic Acquirer Models

How Strategic Acquirers approach M&A
As the wealth management industry continues to mature, mergers and acquisitions (M&A) are becoming an increasingly important consideration for the health and direction of individual firms. A solid understanding of underlying consolidation trends is critical to making informed decisions about a firm’s future.

Understanding Strategic Acquirers
One important consolidation trend Fidelity has identified is the rise of organizations we’ve termed “Strategic Acquirers.” In this report “Strategic Acquirers” refers to firms that take a financial interest in a wealth manager and help them grow and perform more effectively through guidance and operational support. The rise of Strategic Acquirers presents great opportunity for prepared firms, and understanding the different characteristics of their models is essential to capitalizing on these new options.

Our Contributors
Fidelity’s M&A Leaders Forum1 is a community of leading wealth management M&A professionals, including strategic and financial acquirers, as well as large RIA firms, which have pioneered a range of business models focused on growth and sustainability. Through thoughtful and generous input from members of the Forum, we gained insight on the models, objectives and strategies of leading Strategic Acquirers.

Continue Learning
This report is part of a suite of M&A resources aimed at helping buyers and sellers prepare for and capitalize on opportunities that align with their business goals. Find additional insights, as well as a monthly Wealth Management M&A Transaction Report, on Fidelity’s website.

1. Members of the M&A Leaders Forum are listed in the Appendix of this report.
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Consolidation and the Rise of Strategic Acquirers

The wealth management industry is experiencing an **accelerating rate of consolidation**, driven by advisors looking to:

- **Achieve scale** to help them remain competitive against emerging technology and pricing pressures.
- **Access capital** to help them drive growth and expand services to meet their evolving client expectations.
- **Implement succession plans** to help them realize the value in their firm.
Over the last decade **Strategic Acquirers** have emerged as a significant catalyst for consolidation, scale, and increased operational experience. They **executed 45% of all transactions** from 2015 through the first half of 2018 above $100MM AUM\(^1\).

Strategic Acquirers may represent a **tremendous opportunity** to leverage capital for growth, increase enterprise value, and cultivate an enduring legacy.

Yet, many advisors have work to do to if they want to capitalize on the opportunity. Strategic Acquirers generally seek **evidence of performance** in growth, productivity, profitability, and client satisfaction: **unprepared advisors can fall short** of their expectations.

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1. Fidelity 2015 - 2018 Wealth Management M&A Transaction Reports
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Strategic Acquirers are helping to create opportunities for prepared, driven, and entrepreneurial advisors who are eager to strengthen their firms’ capabilities, footprint and scale.

By working to understand how Strategic Acquirers operate, considering risks and rewards of a deal, and assessing their own value, advisors can develop a strategy and position themselves for a successful acquisition.
Understanding Strategic Acquirers

Strategic Acquirers have evolved from acquiring the cash flows of books of business...

...to a more deliberate focus on building sustainable and better integrated businesses through acquisitions.

But not all Strategic Acquirers share the same approach.
With insight from members of Fidelity’s M&A Leaders Forum, Fidelity has identified **five distinct Strategic Acquirer models**¹:

1. **Integrated Platform Provider**
   - Dynasty Financial Partners
   - FinLife Partners
   - HighTower

2. **Passive Investor**
   - Fiduciary Network
   - Powered by United Capital
   - HighTower

3. **Financial Acquirer**
   - AMG Wealth Partners

4. **Strategic Aggregator**
   - Focus Financial

5. **Branded Acquirer**
   - Beacon Pointe
   - CAPTRUST
   - HighTower
   - Kestra Financial
   - Mariner Holdings
   - United Capital

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¹ The five Strategic Acquirer models referenced herein are for illustrative purposes only and are not meant to be exhaustive of all possible business options or models an advisor may consider for its particular situation. You must conduct your own analysis, review, and due diligence based on your specific situation. You are responsible for evaluating your own practice and making your business decisions for your firm. The list of “examples” included herein are used with each firm’s permission and are not an exhaustive list. The included information is general in nature is not intended to illustrate any specific advisor experience and is not a representation of any potential future transaction models.
Strategic Acquirer Philosophies

Prepared advisors understand the differences in Strategic Acquirer processes and approaches, and use this knowledge to help put themselves in a stronger position for acquisition.

The models have varying philosophies on:

- The optimal balance of what acquired firms are free to decide and what is centralized
- Engaging newly acquired firms to buy into a larger vision
- Integrating firms into a unified, aligned whole
Strategic Acquirers often have a common aim: to motivate a leading team of experienced advisors to collectively achieve a better performing, more valuable, and unified whole.

The different philosophies and approaches of each model seek to provide advisors with varying degrees of autonomy in running their business.¹

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The type of product and operating platform provided to advisors may also vary across different Strategic Acquirer models.

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Considering the Risks and Rewards

Understanding different Strategic Acquirer models is just one piece of the puzzle.

Preparing for an acquisition may start with careful consideration of what advisors may be willing to risk and what rewards they are looking to gain.
Considering Risks and Rewards of Aligning With Different Models

<table>
<thead>
<tr>
<th>Potential Risks</th>
<th>Potential Rewards</th>
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<tbody>
<tr>
<td>Strategy</td>
<td>Access capital to execute growth, partner transition, and acquisition strategies</td>
</tr>
<tr>
<td></td>
<td>Gain strategy, practice management, and operating expertise from Strategic Acquirer and associated firms</td>
</tr>
<tr>
<td>Talent</td>
<td>Access talent, and a stronger hiring value proposition</td>
</tr>
<tr>
<td></td>
<td>Leverage organization and development expertise</td>
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<tr>
<td></td>
<td>Access an advisor network</td>
</tr>
<tr>
<td>Technology &amp; Operations</td>
<td>Reduce/transfer away unwanted operating complexities</td>
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<tr>
<td></td>
<td>Concentrate on client and prospect facing activities</td>
</tr>
<tr>
<td>Risk &amp; Regulatory</td>
<td>Reduce/transfer business ownership liability</td>
</tr>
<tr>
<td></td>
<td>Leverage existing risk &amp; compliance programs</td>
</tr>
<tr>
<td>Client Focus</td>
<td>Leverage a well established brand and a defined client service process</td>
</tr>
<tr>
<td></td>
<td>Receive a complementary digital client service strategy</td>
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</tbody>
</table>

It is important that advisors are deliberate in creating a relationship with a Strategic Acquirer, and focus on the model that most appropriately strikes the **right balance between risk and reward**. This will help inform their decision and develop a **strategy** for acquisition.

This information about risk and rewards is general in nature and should not be construed as advice of any kind. This is hypothetical in nature and does not reflect an advisor’s analysis for any particular situation or transaction. An advisor should conduct its own analysis, review, and due diligence based on its specific situation. Business transaction decisions may be based on many other factors.
Advisors considering a Strategic Acquirer should not only evaluate their risk-reward trade-off, but also understand how they will benefit the acquirer.
Who Are Strategic Acquirers Looking For?

Different models can generally have different target advisor profiles:

**Integrated Platform Provider**
Advisors and breakaways seeking scalable platform, operating, product and practice management support and capital to execute strategy.

Strong desire to retain maximum independence while seeking execution support.

**Passive Investor**
Established, well-managed firms with strong leadership and identified next generation management.

Seek access to long term capital to execute clearly defined growth plans while maintaining maximum operating control.

**Financial Acquirer**
Large (>1B) firms with growth and operating potential, strong management, and clear growth plans.

Seek capital for expansion but not platform support.

**Strategic Aggregator**
>$300MM firms led by advisors who have demonstrated strong business and operating skill.

Seek capital, strategic support and an operating platform for growth and/or leadership transition.

Principals have a clear desire to remain independent.

**Branded Acquirer**
$300MM-$1B market-focused advisors and breakaways willing to trade varying degrees of operating autonomy for faster growth and performance and enterprise value.

Often eager to relinquish non-client and prospect activities to focus on client service and growth.

Advisors and breakaways demonstrate a commitment to achieving the shared vision.
Strategic Acquirers generally prefer firms that understand what drives value and performance. They look to acquire firms that already show growth, productivity, profitability, and client satisfaction.

Advisors who want to be considered as part of a target profile should ask themselves:

Will Strategic Acquirers consider me valuable?
Fidelity identified eight value drivers to help advisors understand their own performance and identify areas where they may benefit from a Strategic Acquirer's help.

To help maximize the potential value of their firm, advisors should understand how they are performing on each of these drivers and their relative performance compared to other firms.

1. Fidelity, *Taking Steps to Help Maximize the Value of Your Firm*. For additional information on the eight value drivers, please see the Appendix of this report.

This information is not intended to be exhaustive. Please always conduct your own analysis, review and due diligence based on your own specific situation.
With knowledge and understanding about different Strategic Acquirer models, consideration of risks and rewards of the models, and an assessment of how a firm can create value, it’s time for an advisor to develop a strategy that may allow them to capitalize on a potential opportunity.

The strategy should consider:

- Envisioning the future state of the firm.
- Determining desired direction and ultimate outcome for the firm.
- Documenting current performance against key value drivers and KPIs.
- Identifying how the firm could improve its value drivers and make itself more attractive to potential acquirers.
- Recognizing where the firm may need help from an acquirer.
- Prioritizing risk/reward outcomes against each acquirer.
- Determining which acquirers may be most aligned with firm priorities and desired outcomes.

For more information, please contact your Fidelity Representative.
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- Comparison To Large RIA Acquirers
- Eight Value Drivers
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Members of Fidelity’s M&A Leaders Forum

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<td>Steve Chipman</td>
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<th>Avalon Advisors</th>
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<td>Brad Siegert</td>
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<th>Berkshire Capital</th>
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<td>Bruce Cameron</td>
<td>Mike LaMena</td>
<td>Adam Birenbaum</td>
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<th>CAPTRUST Financial Advisors</th>
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<tr>
<td>Amy Webber</td>
<td>Jeff Vivacqua</td>
<td>Rush Benton</td>
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<tr>
<th>Carson Wealth Management Group</th>
<th>CIBC Atlantic Trust</th>
<th>Colchester Partners</th>
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<tbody>
<tr>
<td>Ron Carson</td>
<td>Eric Propper</td>
<td>Frank Kettle</td>
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</table>

About Fidelity’s M&A Leaders Forum

Recognizing the growing importance of M&A strategies to the future of the wealth management industry and individual advisory firms, Fidelity created the M&A Leaders Forum in 2015.

Comprised of influential leaders actively executing M&A strategies, the Forum community seeks to:

- Increase M&A transaction transparency by identifying individual deals.
- Raise advisor understanding and preparedness to engage in M&A through increased education on key M&A trends and issues.

The Fidelity M&A Leaders Forum is a community of Wealth Management M&A Industry Leaders including leading strategic and financial acquirers, large RIA firms which have created a range of business models focused on growth and sustainability, and Broker-Dealers.

The third parties referenced herein are independent companies and are not affiliated with Fidelity Investments. Listing them does not suggest a recommendation or endorsement by Fidelity Investments.
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1. The intention of this supplemental chart is to help advisors better understand the approaches of different models as they consider their own strategies and options. This information is for illustrative purposes only and is not meant to be exhaustive of all possible business options or models an advisor may consider for its particular situation.

More information on Large RIA Acquirers can be found in Fidelity’s report Inside the Inorganic Growth Strategies of Large RIAs.

<table>
<thead>
<tr>
<th>Differentiator</th>
<th>Integrated Platform Provider</th>
<th>Passive Investor</th>
<th>Financial Acquirer</th>
<th>Strategic Aggregator</th>
<th>Branded Acquirer</th>
<th>Large RIA Acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary deal structure &amp; components</strong> (% cash/equity/debt; % up front; earn out structure; etc.)</td>
<td>Strong product, operating and practice management platform. Capital to execute move to independence. Strong transition support model.</td>
<td>Passive capital provision from long term investor. Advisor retains maximum operating and voting control.</td>
<td>Enable entrepreneurs to execute business plan by providing needed capital. Advisors accountable to but operate independently from investors.</td>
<td>Engage and retain entrepreneurs seeking to build business to next level (whether transition or strategic support). Well capitalized to facilitate transitions. Sophisticated deal structures.</td>
<td>Strong well branded presence and platform. Enable advisors to concentrate on client/market facing activities. Remove often unwanted operating complexities and decisions (operations, technology, staff management) from motivated entrepreneurs.</td>
<td>Strong, respected local brand and well executed operating model.</td>
</tr>
<tr>
<td><strong>Post-deal entrepreneur model</strong></td>
<td>Wholly independent, 100% advisor owned. Empower through platform, community and capital for transition to independence, G2 buy in or sub acquisitions.</td>
<td>Advisor retains full management decision-making and voting control. Parent provides strategic guidance as requested by advisor. No advisor ownership/investor changes without consent of parent.</td>
<td>Largely passive, providing support when requested. “Carrot and stick” incentives to drive growth, profitability.</td>
<td>Shared cash flows. Empower acquired entrepreneur to continue remaining independent and grow with benefit of capital and community.</td>
<td>Engage through better platform and unified strategy and brand to drive growth, productivity and profitability. Relieve RIA of unwanted functions to focus on growth and client satisfaction. Become part of a unified whole with aligned strong culture.</td>
<td>Integrate into new single entity.</td>
</tr>
</tbody>
</table>

1. This chart provides additional insight into the varying models and approaches of Strategic Acquirers and compares them to Large RIA Acquirers, which are generally executing few transactions than Strategic Acquirers and in a more defined geographic scope.
### Comparison to Large RIA Acquirers

This chart provides additional insight into the varying models and approaches of Strategic Acquirers and compares them to Large RIA Acquirers, which are generally executing few transactions than Strategic Acquirers and in a more defined geographic scope.1

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<th>Large RIA Acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal structure / Autonomy</strong></td>
<td>Advisors remain fully independent, own ADV. Percentage of revenue fee structure to provider.</td>
<td>Minority long term investment. Advisor retains operating control and voting rights. Independent ADV.</td>
<td>Varying levels of investor percentage ownership; advisor maintains some level of equity. Independent ADV.</td>
<td>Typically, majority but not 100% ownership; firms retain independent ADVs.</td>
<td>Significant majority to 100% owned by acquirer. Acquired firm becomes part of parent RIA’s ADV.</td>
</tr>
<tr>
<td><strong>Product &amp; operating platform provided to advisors</strong></td>
<td>Robust operating, technology and investment platform. Access to capital. Support for M&amp;A execution.</td>
<td>No platform provided; informal access to strategic guidance, particularly in capital structure and sub-acquisitions.</td>
<td>Limited operating support. Some collaboration on strategy and growth plans as desired by RIA. Limited cross firm interaction with other acquirer-owned firms.</td>
<td>Capital to facilitate succession plan execution, sub acquisition strategies. Strategic support with M&amp;A opportunities, capital structure, operating and investment expertise. Active Wealth Manager network.</td>
<td>Standard operating and technology platform across acquired RIAs. Marketing and Communication support. Single brand. Investment platform encouraged but not always required. Active Wealth Manager network.</td>
</tr>
<tr>
<td><strong>Practice management platform</strong></td>
<td>Extensive practice management offerings and expertise. Active community network.</td>
<td>Informal guidance as sought by firm.</td>
<td>Limited to none. Collaborative coaching as requested. Typically limited to no Wealth Manager network.</td>
<td>Best practices coaching initiatives and support. Active Wealth Manager network.</td>
<td>Staffed practice management groups provide coaching and best practices. Some organization design and development structure support. Active Wealth Manager network.</td>
</tr>
</tbody>
</table>

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More information on Large RIA Acquirers can be found in Fidelity’s report *Inside the Inorganic Growth Strategies of Large RIA*s.
About Drivers of Firm Valuation and Why They Matter

**Firm size**
Your firm’s value is directly correlated to your size. As your firm grows, your ability to scale your wealth management business – without being highly dependent on any one associate – increases.

**Revenue growth and structure**
Potential buyers will want to know your firm’s future revenue growth potential, along with your historical growth rate. They will also seek to understand whether your revenue structure is fee or commission-based and whether fee-based advisors charge for additional services.

**Organization**
Your firm is often only as valuable as the price investors are willing to pay for your advice. That boils down to the quality of your people, or “human capital.” Your personnel are the critical element to attracting and retaining new clients and revenue sources.

**Leadership**
Your firm’s ability to build a strategic vision – as well as to grow revenue and operate effectively – rests on the business acumen of a strong management team.

**Capabilities**
Having a deep and well-rounded set of competencies that clients need is essential for growing your firm to its maximum potential.

**Client experience**
As your firm grows and matures, achieving scale may depend on your ability to develop a compelling organizational structure that increases value to customers and removes the client dependency on an individual advisor.

**Cost structure**
External buyers will want to know the elements of your cost structure they can build on after a sale. As for internal buyers, they’ll seek a level of certainty about where the cost structure is heading in the future so they can better predict cash flow.

**Client demographics**
The demographics of your clients shed some light on how their accounts may grow or depreciate over time, indicating your firm’s current stability and future ability to grow revenue.

Source: “Taking Steps to Help Maximize the Value of Your Firm”, a resource for understanding factors that can influence the value of your RIA. Please keep in mind that you will always have to conduct your own analysis, review and due diligence based on your own specific situation, and this information is not intended to be exhaustive.
Fidelity's Wealth Management M&A Resources

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Proprietary research, M&A Trend Analysis

Practical Guides

M&A experts: Contact your Fidelity Relationship Manager

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