Inorganic Growth Strategies of Large RIAs

Key characteristics of Large RIA Acquirers

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Introduction

As the wealth management industry continues to mature, merger and acquisition (M&A) strategies 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.

Large RIA Acquirers Are Growing Industry Players
One major force of wealth management consolidation Fidelity has identified is the large, standalone $1B+ RIA with strong management and a track record of executing a well-defined, non-serial acquisition strategy. We’ve termed this segment “Large RIA Acquirers”. These firms are becoming larger businesses through a thoughtful approach to M&A, and are critical industry players that continue to experience growth.

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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Large RIA Acquirers recognize the complexities of building a strong, successful, and enduring business. They also recognize that in order to compete effectively in the M&A space, they must communicate a strong value proposition to target firms that are interested in shaping their own futures as part of a healthy, scalable, and focused organization.
For advisors with successful, growing businesses, aligning with a Large RIA Acquirer is a business strategy that could help them grow faster and bigger than they otherwise could if they remain independent.

Often these advisors possess proven-quality talent, yet are seeking additional support in key business functions and access to greater resources.

Another reason advisors find Large RIA Acquirers attractive is the potential to have greater influence on the future direction of the combined entity than might be possible with multi-acquisition Strategic Acquirers.
Large RIA Acquirers are discerning.

Firms report\(^1\) that they’re less interested in advisors who run a business with any one of the following attributes:

- History of limited AUM growth
- Aging client base
- Lack of talent
- An immediate succession of the advisor
- Spotty or tainted compliance record

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In contrast to Strategic Acquirers\(^1\), Large RIA Acquirers have generally completed fewer transactions, often by design. The firms that contributed to this report have, for the most part, completed between two and five deals. Their initial deal experience is often opportunistic, and subsequent challenging implementation lessons lead them to develop a more deliberate and thoughtful acquisition strategy.

We have identified six distinct characteristics of their approaches to acquisition that other acquirers and advisors can learn from:

1. Seek to **boost growth** and increase scale
2. Readily access capital through **multiple sources**
3. Take a **strategic and deliberate** approach to pursuing targets
4. Place a high importance on creating a well-defined **shared vision**
5. Structure the deal to reinforce **shared vision**
6. Make integration a **priority** and competitive differentiator

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1. More information about Strategic Acquirers can be found in the appendix and in Fidelity’s report, *Understanding the Emergence of Strategic Acquirers*. 

While M&A itself is often considered to be the strategy, several firms identified higher level strategies including growth, talent acquisition, and operating productivity. Seeking out these goals often leads to M&A as the means of executing the strategy. As a result, Large RIA Acquirers are deliberate, intentional, and patient in their deal making.

Led by visionary leaders and strong management teams, these firms believe that pursuing an inorganic growth strategy that complements existing activities can help sustain historical growth rates over the long term.

Rising breakeven costs for talent, technology investments, and compliance are driving acquirers to pursue acquisitions as a means to create scale, gain efficiencies, and increase productivity.
A significant change giving rise to the Large RIA Acquirer segment is the availability of substantial and sophisticated capital.

Today, few large RIAs are executing transactions by relying solely on existing cash flow.

Instead, these acquirers are drawing on available capital from sophisticated private equity firms and parent investors who find the wealth management space an attractive investment opportunity.

Examples of capital-raising activities relied upon by Large RIA Acquirers:

- A corporate recapitalization
- Funds from private equity firms
- A sale to a larger, but often passive, investor owner (e.g., bank)

One potential benefit of greater available capital: Increased flexibility for all parties when structuring deal terms.
After initially executing opportunistic transactions, Large RIA Acquirers began to take a more thoughtful and strategic approach to subsequent acquisitions. These approaches include:

- Defining their acquisition goals
- Clarifying a set of criteria to define an ideal target
- Dedicating seasoned professionals to the M&A process

Because of this deliberate and strategic approach, targets seeking to maximize the value of their firm may want to closely match their characteristics to the needs and objectives of the acquirer.
3. Take a strategic and deliberate approach to pursuing targets

When it comes to defining acquisition goals, Large RIA Acquirers typically focus on three priorities.

- **Expanding geographically** with the intent of efficiently building a presence and brand in a new and distant market.

- **Building density** in markets where the acquirer has an existing presence in order to increase scale, gain efficiencies, and elevate their brand profile.

- **Acquiring next-gen talent**, who can potentially help supercharge organic growth by providing an array of technical and client-facing skills and leadership potential.
3. Take a strategic and deliberate approach to pursuing targets

When pursuing a target that offers geographic expansion, some Large RIA Acquirers have gained unexpected lessons through their experience.

**Distant locations tend to need local leadership.**

Succession deals can be more challenging than anticipated with distant targets. Large RIA Acquirers report that they carefully assess who will provide local leadership (e.g., someone from their team who plans to relocate to the satellite office or someone who is already in place at the target).

**Next-gen talent in the distant location can make or break the success of an acquisition.**

Acquirers have learned to make an effort to determine whether G2 talent represents the type of professional that can help them longer-term. They’re also looking to see if incentives are in place to keep this talent post-acquisition. A lack of a deep bench in the satellite office may put existing client relationships at risk.
3. Take a strategic and deliberate approach to pursuing targets

In order to avoid creating a long wish list of criteria that may not be realistic to fill, Large RIA Acquirers typically prioritize the top characteristics that they consider essential in a target advisor. Staying true to these priorities can help them save time, realize efficiency, and keep emotions out of the buying process.

Once a strategy is set, Large RIA Acquirers are investing a meaningful amount of time to identify a set of criteria to define and evaluate an ideal target.
3. Take a strategic and deliberate approach to pursuing targets

Large RIA Acquirers typically look for these attributes in their assessment:

- **Client experience**. Large RIA Acquirers are attentive to the client experience. They want to understand the details about a target’s communication processes, including touch points, contact frequency as well as offline and digital channels used.

- **Similar investment philosophy and capabilities such as holistic financial planning.**

- **Common philosophy on how employees are treated.** This can include philosophies regarding compensation as well as criteria for advancement within the organization. As part of this assessment, they’re also looking to ensure future employees possess the right skill sets (e.g., technical, emotional intelligence, leadership) to complement or fill any gaps in their organization.

- **The right chemistry.** Large RIA Acquirers look for compatible personalities among all partners and associates that are part of the deal. Investing the time to have conversations with all stakeholders can help validate whether the chemistry is right and develop a clear understanding of future roles.

For Large RIA Acquirers, assessing fit is a combination of **art and science** and ultimately helps them better understand the target firm’s core values. Firms devote **substantial attention** to the new relationship and assessing potential alignment.
3. Take a strategic and deliberate approach to pursuing targets

While some Large RIA Acquirers have **full-time staff** dedicated to pursuing a target and closing a deal, all have at least **one internal leader** who is typically allocating the majority of his or her time to acquisitions.

Large RIA Acquirers tend to dedicate **substantial resources** to acquisition efforts.
Discussions about a combined entity typically include these topics:

- How they will pursue long-term sustainable and, in several cases, much faster combined growth
- Organizational structure of the combined team including future roles and responsibilities for key players
- Potential difficult decisions and areas of conflict
- Areas for potential cost savings
- The type and amount of risk each party may assume

Large RIA Acquirers believe that **candid discussions with the target advisor** about a future vision for the combined entity can help **build trust and clarity**. These types of **constructive, forthright conversations**, which are largely focused on **expectations**, tend to occur **early on** in the pursuit. This timing is instrumental in helping Large RIA Acquirers **understand** how the target will **contribute to creating a stronger combined entity**.

Large RIA Acquirers tell us that **succession/exit situations** are **less attractive** to them than a target advisor or firm that has the potential to **grow faster and bigger** than they otherwise would have if they remained independent.
4. Place a high importance on creating a well-defined shared vision

According to the firms interviewed, don’t underestimate the amount of consideration and effort all parties to a transaction need to undertake when agreeing upon a well-defined vision.

In defining their shared vision, acquirers and targets consider the following activities:

**Acquirers**

1. Documenting and clearly articulating a well-developed value proposition for why a target should join them, which could include:
   - The acquirer’s track record for doing acquisitions
   - How new business is generated
   - Resources and capabilities they offer
   - The types of centralized resources, including technology, that the target advisor or firm will have access to
   - Governance and decision-making processes

2. Understanding all of the commitments the target advisor or firm has made to existing clients and employees and whether they can be fulfilled or addressed prior to closing a deal.

3. Maintaining an open mind to adopting any best practices offered by the target firm that can make the combined entity stronger.

**Target Advisor**

1. Documenting their core values and know what is critical versus desired in a post-acquisition vision.

2. Articulating what they hope to achieve from a sale.

3. Communicating their strengths and how they can add value to a combined entity (e.g., talent, attractive client base, or additional capabilities)

4. Fully embracing the acquiring firm’s overall approach. While large RIA Acquirers indicate that they’re open to new ways of running the business, they generally expect their targets to fully embrace their practices. Few will consider making exceptions for one target or group of clients in terms of how they are served, since such exceptions likely defeat their goal of achieving scale.

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The combined vision increasingly drives deal structure and terms, which are instrumental when finalizing price.

As a result, deal structures have become increasingly sophisticated as they may address an array of issues:

- Shared risk
- Specific control and voting provisions
- Timing and method of payments
- Philosophical alignment
5. Structure the deal to reinforce shared vision

While all parties may agree on firm valuation, **deal terms** can ultimately impact the **final price** agreed upon by all stakeholders. For example:

- **If the target is sharing more of the risk,** an acquirer may pay more than the firm’s value.
- **If the clients are likely to remain** with the combined entity, the acquirer may consider **compensating talent** if they’re participating in the **growth of existing clients** and assuming the risk of it not growing.
- **If a target advisor only wants cash or a short-term note,** the price can be lower than the valuation.
- **If a target advisor is looking for a succession option and does not offer a strong bench of G2 talent,** then the price can be negatively impacted.
Large RIA Acquirers recognize that M&A is both a financial and business transaction.

They learned over time that their success requires attention to the demands of integration: complexities, unanticipated challenges, organizational alignment, and resource and leadership demands.

These demands should be addressed over an extended time period to achieve the full potential of the combined entity.
Based on their experiences, the Large RIA Acquirers offer the following observations for achieving an agreed-upon vision for the combined entity:

- **An acquisition is much more than a financial transaction.** Acquirers need to fully integrate their target into their organization in order to achieve maximum value.

- **Closing the deal does not define success.** Integration requires patience, much more hard work, and commitment than most anticipate. Reviewing results of the integration one year after the closing date can help gauge overall effectiveness and uncover valuable insights and best practices to apply to the next deal.

- **Expectations between both parties must be established well before the close.** For example, parties should decide the sequence of events for the integration, as well as any changes in roles, governance and decision making processes.

- **Both sides of the deal face challenges.** Regular status meetings with leaders from both sides, clear role definitions, establishing a way to identify points of difference, as well as a resolution and governance process can all help streamline the integration process.

- **Unique individual processes or skills offered by the acquired firm can provide ways to help integrate the combined entity.** Large RIA Acquirers should maintain an open mind to ideas offered by the target.
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Key Considerations for Advisors

Large RIA Acquirers represent an opportunity for well-prepared advisors to work closely with firms who demonstrate a unique mix of business management acumen and wealth management advisory experience.

Such relationships can provide a way for advisors to leverage a well-managed platform in order to achieve a potentially higher level of growth than if they remained independent, while also contributing unique elements of their existing business into a willing partner’s organization.

When considering how to engage with Large RIA Acquirers, advisors may want to thoughtfully answer the following questions:

- What specific management and growth challenges are you facing that a Large RIA Acquirer could help you to solve?
- What types of attributes, skills, and expertise do you bring to the table that would help a Large Acquirer continue to build a strong, successful and enduring business?
- How can you contribute to developing a shared vision of the future with a Large RIA Acquirer to help long-term success?
As with any effective M&A strategy, advisors should determine their own priorities as they consider their growth, scale, and leadership succession options. As you explore your path forward, we encourage you to contact your Fidelity Representative for more information.
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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.

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<tr>
<th>About Fidelity’s M&amp;A Leaders Forum</th>
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*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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### Comparison to Strategic Acquirers

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<th>Differentiator</th>
<th>Large RIA Acquirer</th>
<th>Integrated Platform Provider</th>
<th>Passive Investor</th>
<th>Financial Acquirer</th>
<th>Strategic Aggregator</th>
<th>Branded Acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary deal structure &amp; components (% cash/equity/debt; % up front; earn out structure; etc.)</td>
<td>100% acquired. Typically a mix of cash and equity over 2-5 year earn out. Often profit sharing incentives to motivate continued growth.</td>
<td>Strong, respected local brand and well executed operating model. Capital to execute move to independence. Strong transition support model.</td>
<td>No ownership change. RIA pays ongoing platform fee on multi-year contract.</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>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>
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<tr>
<td>Post-deal entrepreneur model</td>
<td>Integrate into new single entity.</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>
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This chart provides additional insight into the varying models and approaches of Strategic Acquirers and compares them to Large RIA Acquirers, which generally execute fewer transactions than Strategic Acquirers and in a more defined geographic scope. The intention of this 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 about Strategic Acquirers can be found in Fidelity’s report, *Understanding the Emergence of Strategic Acquirers*. 
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<th>Large RIA Acquirer</th>
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<tr>
<td>Acquired firm becomes part of acquirer’s ADV.</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>
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| Product & operating platform provided to advisors | Fully integrate into existing platform. Incorporate unique expertise sought by acquiring firm into existing model. | Robust operating, technology and investment platform. Access to capital. Support for M&A execution. | No platform provided; informal access to strategic guidance, particularly in capital structure and sub-acquisitions. | Limited operating support. Some collaboration on strategy and growth plans as desired by RIA. Limited cross firm interaction with other acquirer-owned firms. | Capital to facilitate succession plan execution, sub acquisition strategies. Strategic support with M&A opportunities, capital structure, operating and investment expertise. Active Wealth Manager network. | 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. |

| Practice management platform | Typically no platform. Seek to integrate into existing model. | Extensive practice management offerings and expertise. Active community network. | Informal guidance as sought by firm. | Limited to none. Collaborative coaching as requested. Typically limited to no Wealth Manager network. | Best practices coaching initiatives and support. Active Wealth Manager network. | Staffed practice management groups provide coaching and best practices. Some organization design and development structure support. Active Wealth Manager network. |

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## Additional Fidelity M&A Resources

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<td>[Image: graph]</td>
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Find these resources and more at [go.fidelity.com/mergersandacquisitions](go.fidelity.com/mergersandacquisitions)
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