

M&A Valuation Study

June 2023

Not FDIC Insured • May Lose Value • No Bank Guarantee

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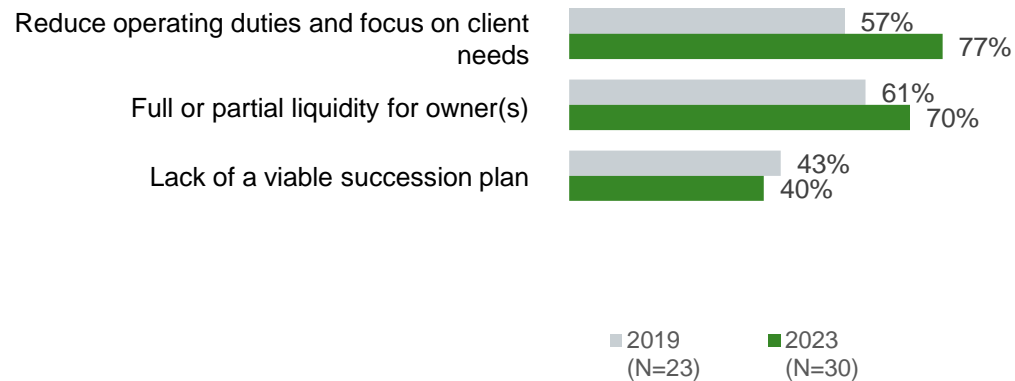


Seller Interest in M&A Led by the Desire to Reduce Operating Duties, Full/Partial Liquidity

Buyer interest in M&A led by desire to acquire top advisor talent or to foray into new geographic markets

DRIVERS OF SELLER INTEREST IN M&A

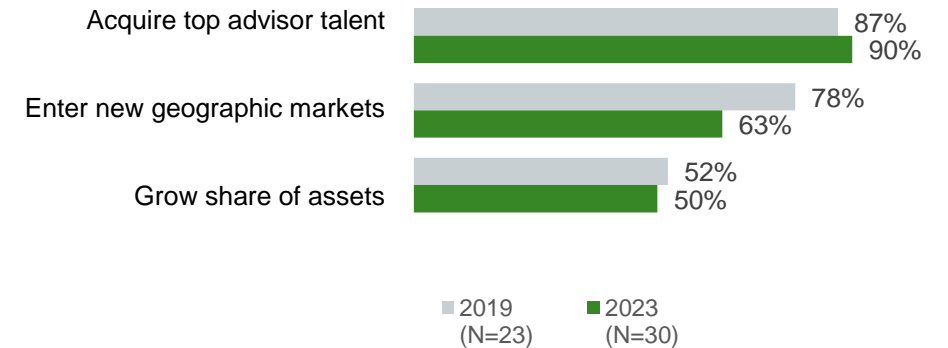
RANKED IN TOP 3



Top 3 drivers of seller interest remain unchanged

DRIVERS OF BUYER INTEREST IN M&A

RANKED IN TOP 3



Top 3 drivers of buyer interest remain unchanged

Source: 2023 M&A Valuation Study

Q2.2: What are the main drivers of seller interest in M&A? Please rank up to 3.

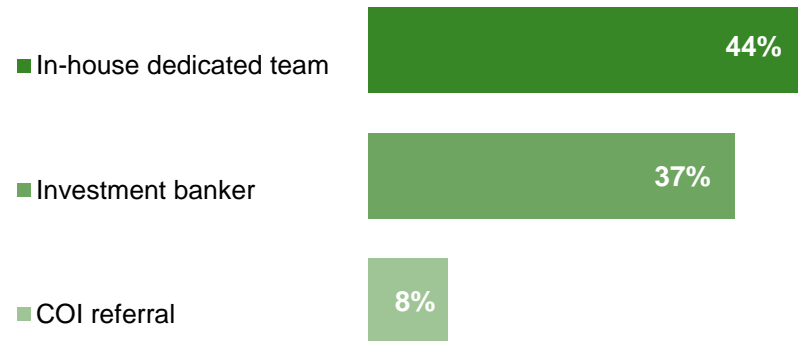
Q3.2: What are the main drivers of buyer interest in M&A? Please rank up to 3.

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In Most Cases, Deals are Sourced by In-House Experts or Investment Bankers

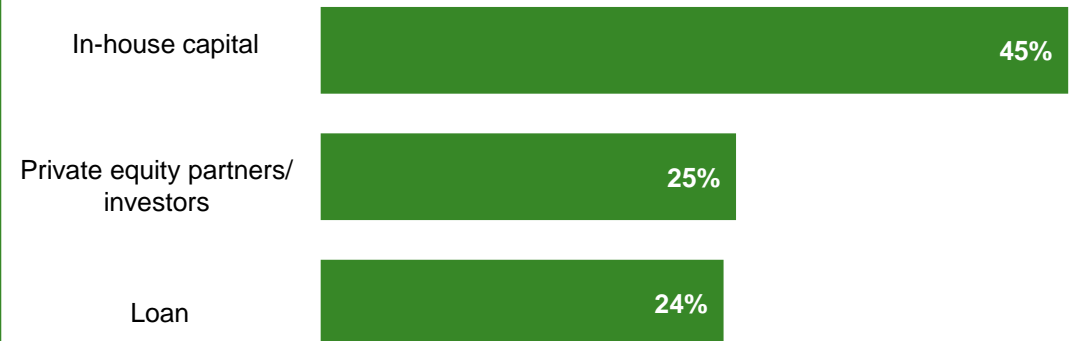
Nearly half of firms state that deals are financed using in-house capital. A quarter of firms utilize PE partners or loans.

TOP 3 SOURCES OF DEALS



For deals completed since Jan 2020 (N=30)

TOP 3 SOURCES OF CAPITAL FOR DEALS



For deals completed since Jan 2020 (N=30)

Source: 2023 M&A Valuation Study

Q9.2: What percent of deals completed or pending since January 1, 2020 were sourced via each of the following? Enter a number for each row, your answers should add to 100% | Q9.3: What percent of deals completed or pending since January 1, 2020 were financed via each of the following (e.g., what is the source of capital)? Enter a number for each row, your answers should add to 100% or more

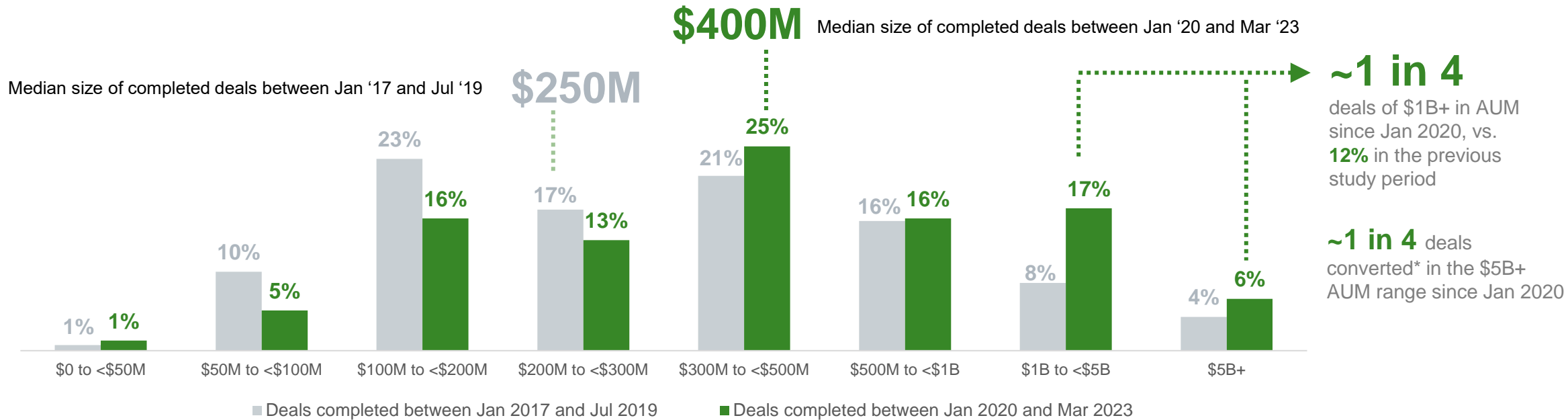
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The Median Deal Size Increased From ~\$250M to ~\$400M in the Study Period

COMPLETED (OR PENDING) DEALS BY AUM

146 completed deals reported between Jan '17 and Jul '19

492 completed deals reported between Jan '20 and Mar '23



*Of deals evaluated in that AUM range since Jan '20

Source: 2023 M&A Valuation Study

Q4.3. Now please think about the deals completed or pending since January 1, 2020, please indicate the number of completed or pending transactions within each of the AUM ranges below? Q4.4: Thinking about the transactions you have evaluated since January 1, 2020 (deals completed, competed for, passed on, etc.), please indicate the number of evaluated transactions within each of the broader AUM ranges below?

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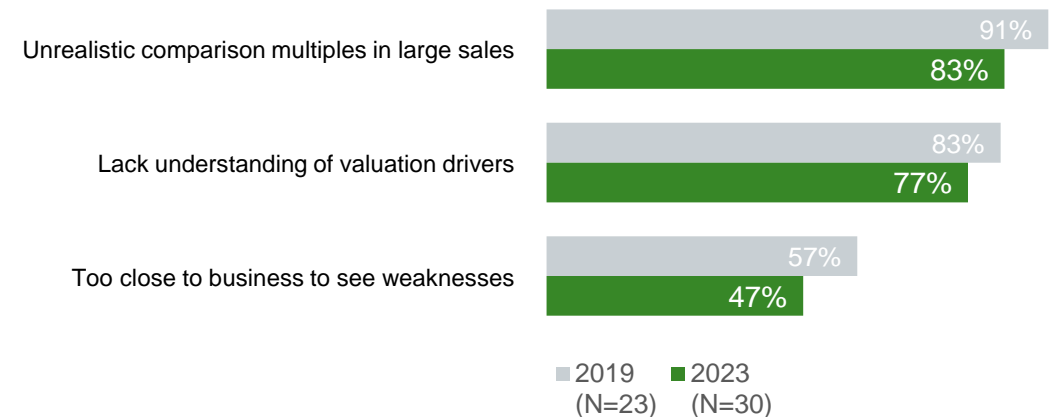
Buyers Walked Away From More Than Half of Evaluated Deals

On average, buyers walked away from **52%** of evaluated deals

TOP 3 REASONS FOR WALKING AWAY



TOP 3 FACTORS DRIVING SELLERS TO OVER-VALUE THEIR BUSINESS



Source: 2023 M&A Valuation Study

Q6.8b: What percentage of deals did you walk away from? [Regarding evaluated deals (completed, competed for, passed on, etc.)] | Q6.8c_1: What were your reasons for walking away? Select all that apply | Q6.7_1: What factors, if any, drive sellers to over-value their business? Select all that apply

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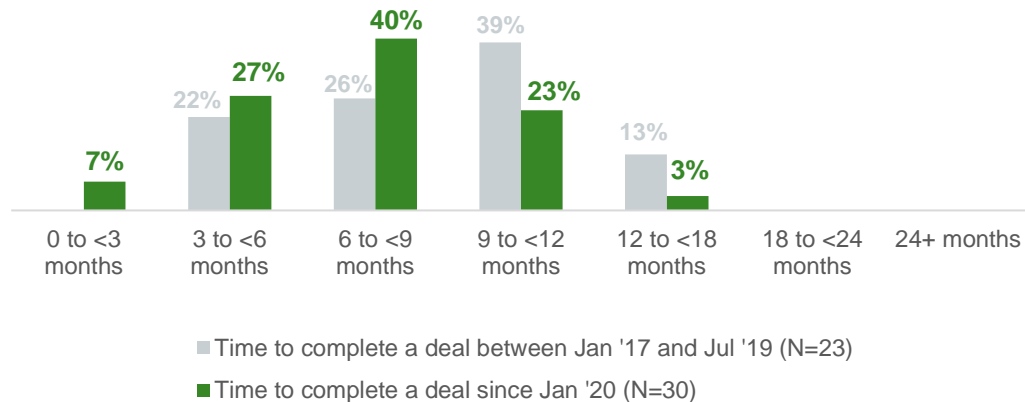
Deal Completion Time Reduced From 9 Months to ~7 Months in the Study Period

Nonetheless, more than 1 in 3 buyers agree market volatility in the past year led to an increase in deal completion time

AVERAGE DEAL COMPLETION TIME

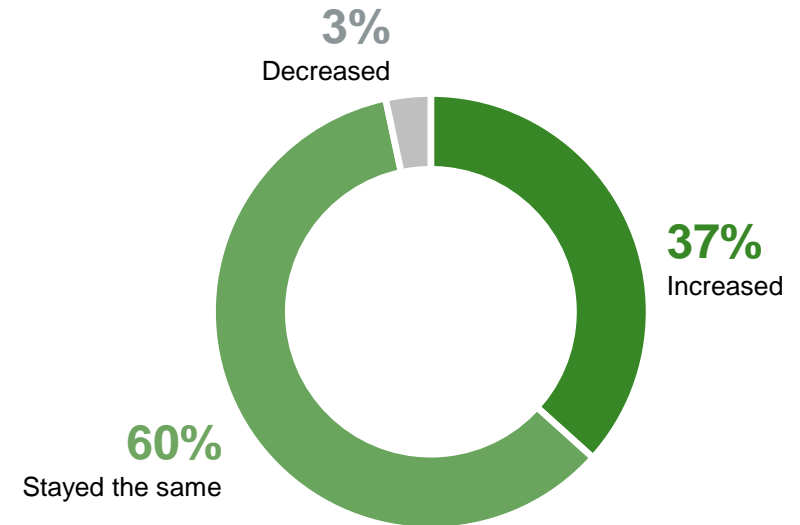
Average length of time required to complete a deal (since Jan '20) **7.25** months

Average length of time required to complete a deal (between Jan '17 and Jul '19) **9** months



CHANGE IN DEAL COMPLETION TIME DUE TO MARKET VOLATILITY IN 2022

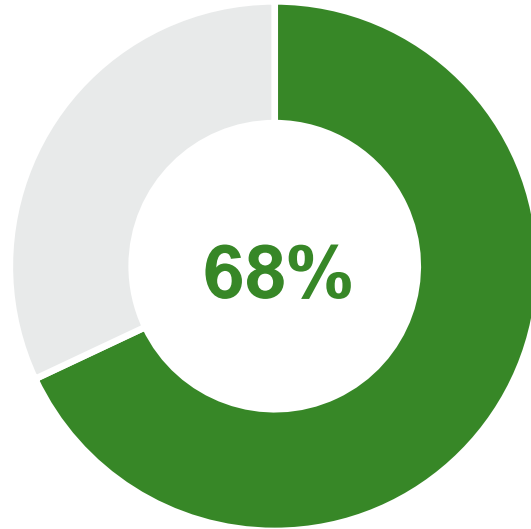
N=30



Q7.4: What is the standard length of time to complete a deal? | Q7.4a: Has the standard length of time to complete a deal increased, decreased, or stayed the same due to the market volatility in 2022?

On Average, 2 out of 3 Deals Had Seller Representation

Three-quarters of such deals were represented by attorneys and half by an investment banker



N=30

Average percentage of deals completed since Jan 2020 that had **seller representation**

SELLERS' REPRESENTATIVES FOR COMPLETED DEALS

Among those firms who mentioned that seller had representation in at least one deal, N=28



Source: 2023 M&A Valuation Study

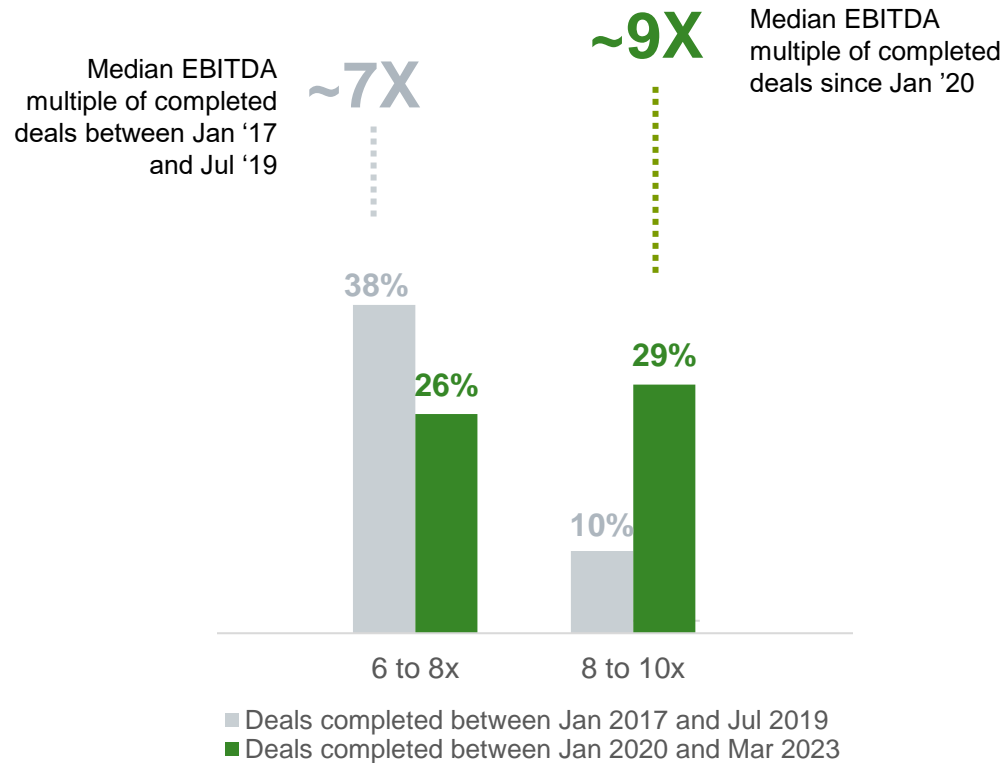
Q9.7: In what percent of deals completed or pending since January 1, 2020 did the seller(s) have representation? | Q9.8: For what percent of deals, did the seller have representation from each of the below?

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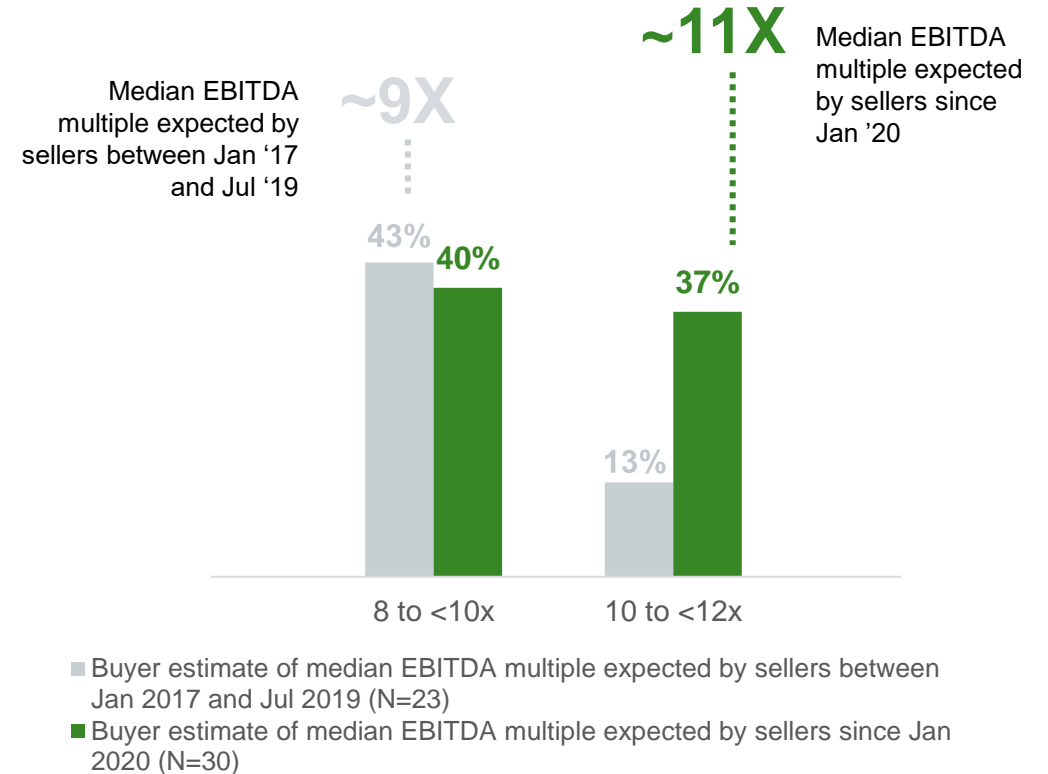
The Median EBITDA multiple for completed deals increased

Sellers' EBITDA multiple expectations also increased

EBITDA MULTIPLE OF COMPLETED (OR PENDING DEALS)



SELLERS' EXPECTED EBITDA MULTIPLE



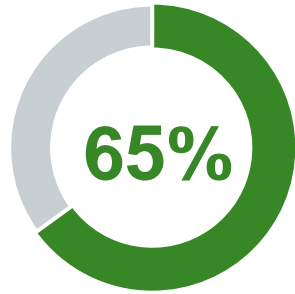
Source: 2023 M&A Valuation Study

Q6.1: You previously indicated you had completed (or pending) deals since January 1, 2020. Please list the number of those transactions that fall into each EBITDA multiple range shown below. | Q6.6: Of the firms that have approached you to sell their business, what is the median EBITDA multiple they were expecting?

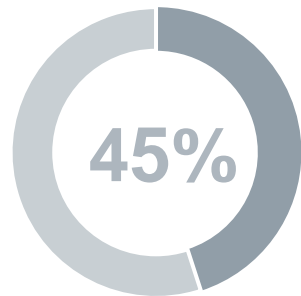
The Median Upfront Payment Climbed From ~45% to ~65% in Recent Years

However, cash to equity ratio remained at ~70%

PROPORTION OF PURCHASE PRICE AS UPFRONT PAYMENT

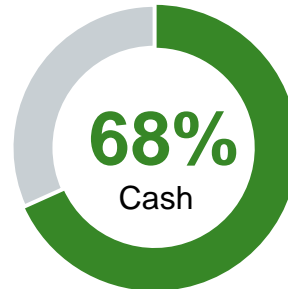


Median since Jan 2020



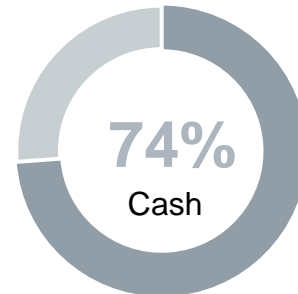
Median between Jan 2017 and Jul 2019

AVERAGE CASH TO EQUITY RATIO



Since Jan 2020

(N=30)



Between Jan 2017 and Jul 2019

(N=21)

AVERAGE DEFERRED PAYOUT REMAINED RELATIVELY STABLE AT ABOUT 2.5 YEARS

Average deferred payout for deals completed since Jan 2020

2.5 years

Average deferred payout for deals completed between Jan 2017 and Jul 2019

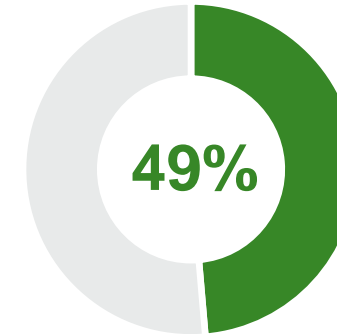
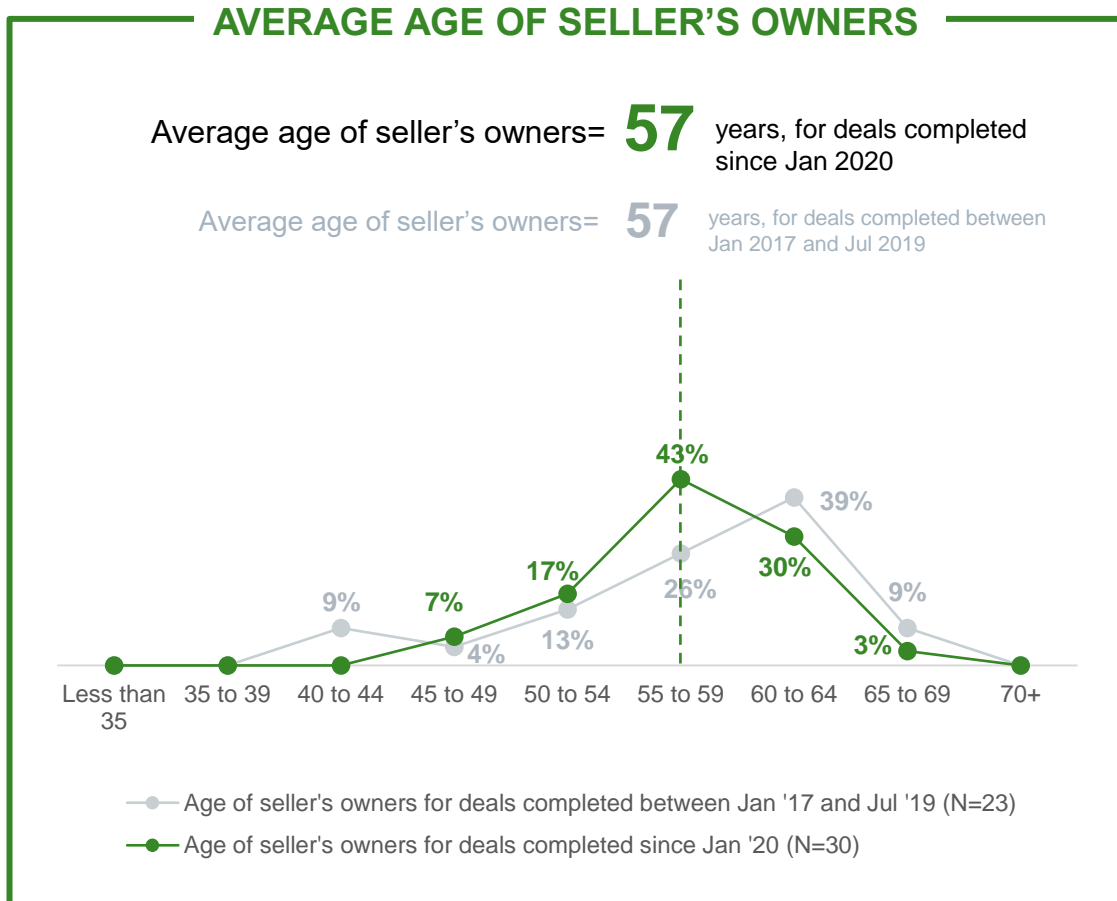
2.7 years

Source: 2023 M&A Valuation Study

Q7.5: What is the median percentage of the purchase price given as an upfront payment to the owner (cash and/or equity)? | Q7.6: On average, what is the split of the upfront payment between cash vs. equity? Your answers should total to 100% | Q7.10: As part of a deal structure, how long is the average deferred payout?

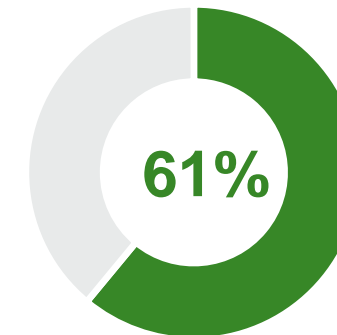
Average Age of Seller Remains 57 Years

Half of sellers had G2 identified. Of those, G2 were involved in nearly 3 in 5 deals



N=30

of deals completed since Jan 2020 where sellers' owners had a **G2 (next generation leader/partner) identified**



of deals completed since Jan 2020 where **G2 was involved**

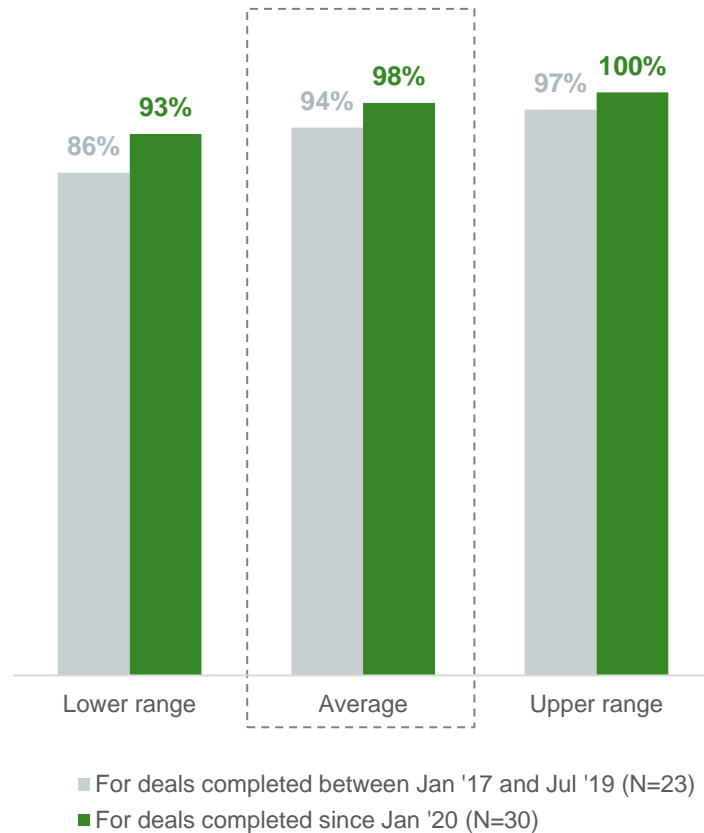
Among those firms who mentioned G2 was involved in at least one deal, N=27

Source: 2023 M&A Valuation Study

Q7.1: What is the average age of the seller's owners? | Q9.4: In what percent of deals completed or pending since January 1, 2020, did the seller owner(s) have a G2 identified? | Q9.6: What percent of these deal structures involved G2* at all (e.g., in terms of equity, debt, financing)?

Buyers Continue to Report Close to 100% Client Asset Retention Rate

AVERAGE CLIENT ASSET RETENTION/CONVERSION RATE



FACTORS DRIVING CHANGE IN RECENT YEARS INCLUDE

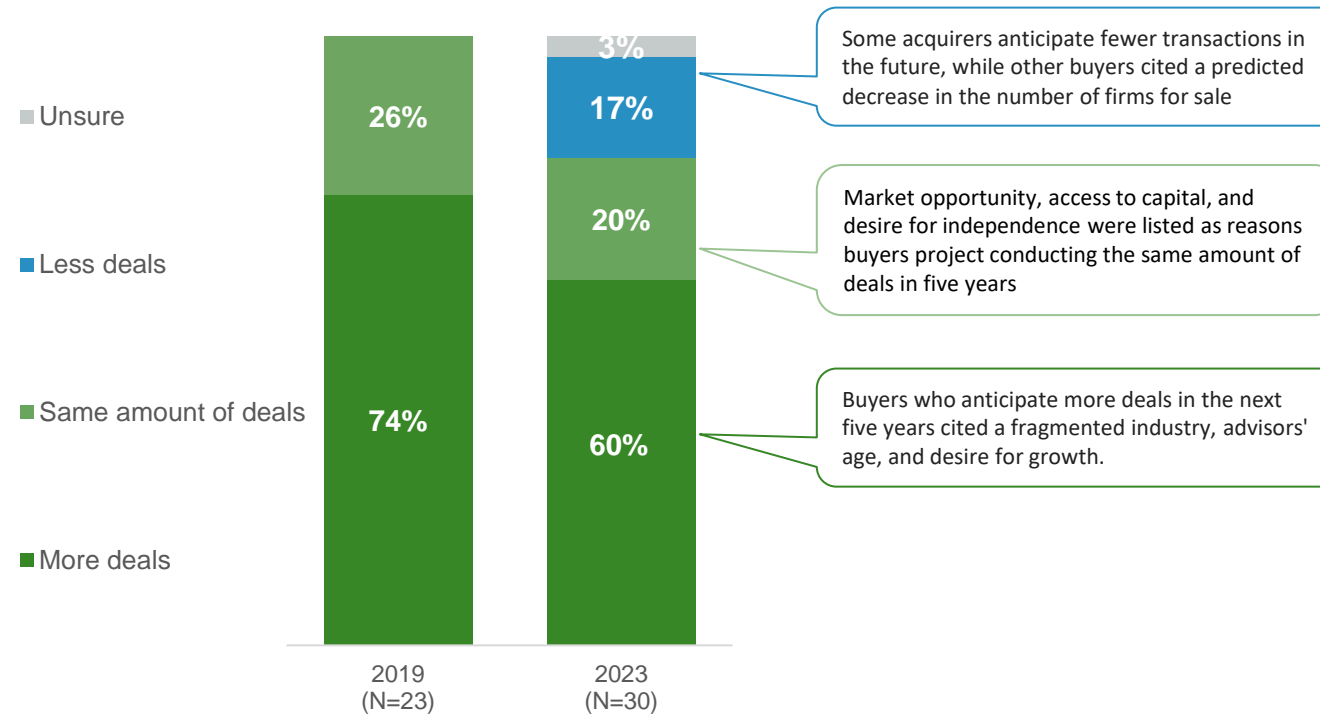
- Firms are adding services, which equals a greater experience for their clients.
- Established transition teams and processes at large RIA acquirers.
- Substantive relationship with client apart from asset management and focus on client communication.

Source: 2023 M&A Valuation Study

Q7.13: Post transaction, what is the average client asset retention/conversion rate of sellers? Q7.14: What is the range of asset retention/conversion rates? Please indicate the low end of that range, and the high end of that range. | Q7.15: What factors, if any, might be driving changes with asset retention/conversion rates in recent years?

3 in 5 Firms Plan to do More M&A Transactions in the Next 5 Years

EXPECTED CHANGE IN M&A DEALS IN 5 YEARS' TIME



Source: 2023 M&A Valuation Study

Q139: In five years from now, do you feel you will be doing more, less or the same number of deals that you are doing today? | Q140: What are your reasons for that response

Important Information

The M&A Valuation and Deal Structure Study is based on data from firms consisting of M&A Leaders Forum members and other clients identified as doing M&A who participated in an online survey conducted by Fidelity Investments. Twenty-six RIAs and 4 COI (Center of Influence) firms participated in the survey. The study was fielded from February 13 through March 28, 2023, and covered M&A deals between January 2020 and March 2023. The 2019 study covered M&A deals between January 2017 and July 2019. Twenty-three firms participated in the study. Throughout the report, the approximate median has been calculated using the mid-point of the range where the actual median falls.

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