

# Retirement Advisory Firm M&A Trends

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Lord Abbett Retirement Forum



# Today's Discussion

## Change is Impacting all Financial Services

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- Evolutionary survival
- Consolidation accelerating
- Traditional lanes blurring
- Challenges mounting
- Game is changing

## Retirement Advisory M&A: What to *know*

- Operating companies emerging
- Buy-Side table stakes forming
- M&A activity increasing
- Multiples peaking

## Retirement Advisory M&A: What to *do*

- Strategic considerations
- Culture over cash
- Think like a buyer
- Sell-side process
- Transaction structure
- Preparation & representation



# Evolutionary Survival

Pivot to Alternative Revenue Sources

## **National Recordkeepers**

- Bundled/Prop Funds
- Unbundling & Rollovers
- Participant

## **National Investment Consultants**

- Consulting
- OCIO
- OCIO Enhanced

## **Retirement Advisors**

- Distributors
- Consultants
- Participant/Wealth +

## **Other Players**

- Broker-Dealers
- Asset managers
- Tech



# Consolidation Across the Board

Fewer/Larger Firms

## **DC Record Keepers**

- Scale now equals 7m participants
- Late Stage

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## **Broker-Dealers**

- Trending irrelevancy in the retirement world
- Mid-Stage

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## **Wealth RIA Firms**

- Validated with IPOs and PE Investment
- Aggregators Next M&A Focus

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## **Investment Consultants**

- AON, Mercer + 5 = \$4T
- Late Stage

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## **Retirement Advisory Firms**

- 15 Aggregators now control \$1.4T in DC AUA
- Early Stage



# Retirement Consolidation By Firm Type

78% of Retirement Plan Assets Now Advised By 132 Firms

Firm Type	# Firms	# Advisors	AUA (b)/%	Example
National Consulting Firms	7	N/A	3,945/50%	Mercer, AON
Regional & Boutique Consulting Firms	35	N/A	295/4%	PEI, Curcio Webb
Aggregators (RIA, Benefit and Platforms)	15	2,560	1,621/20%	CAPTRUST, SRP
Regional Dominators (> \$8m rev)	75	1,772	352/4%	Mesirow, VisionPoint
Elite (> \$2m rev)	575	6,256	743/9%	Compass, Alpha
Other	1,550	2,725	529/8%	N/A
Wire, Bank, Insurance BD	3,892	8,738	357/5%	N/A
<b>Total</b>	<b>6,162</b>	<b>22,051</b>	<b>7,842</b>	



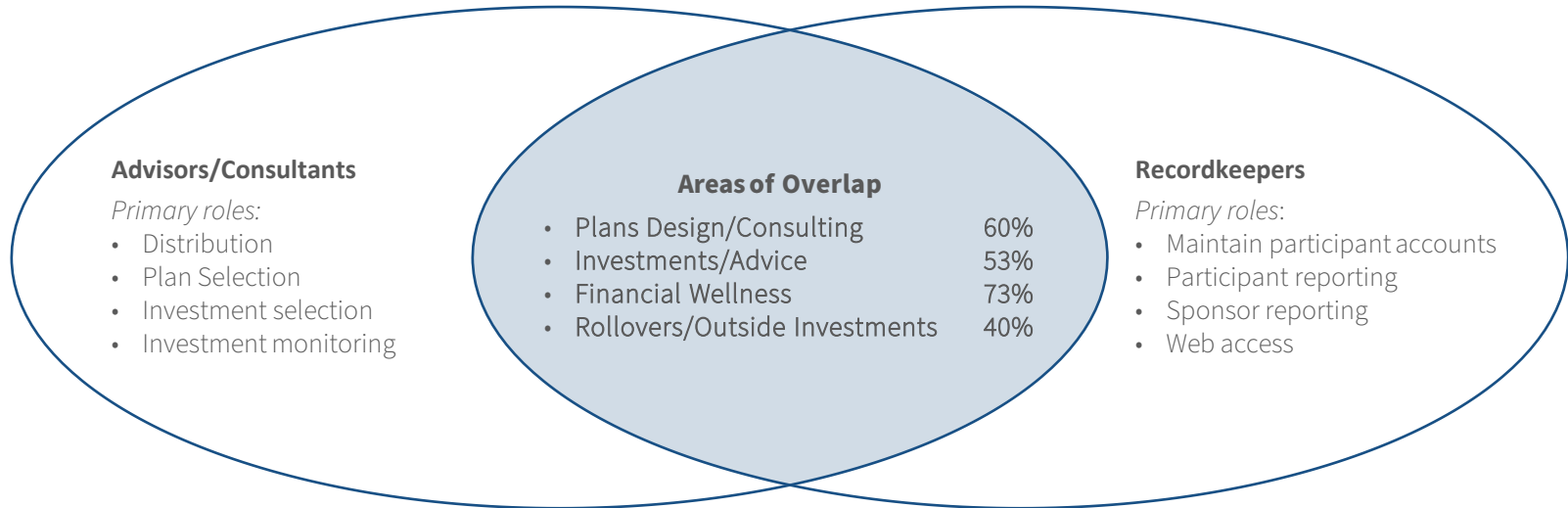
# Retirement & Wealth Advisory Firm Buyers

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	\$480b	167	NFP	\$295b	157	CBIZ	\$38b	25	RPAG	\$300b
Sageview	\$110b	68	Gallagher	\$45b	65	USI	\$23b	19	GRPF	\$51b
			Lockton	\$44b	37	Alliant	\$14b	11	Pensionmark	\$41b
			HUB	\$43b	32	Alera Group	\$2b	7	Resources	\$41b
			One Digital	\$41b	34				SRP	\$15b
			MMA	\$37b	15					
<b>Total</b>	<b>\$591</b>	<b>235</b>	<b>Total*</b>	<b>\$505b</b>	<b>340</b>	<b>Total</b>	<b>\$77b</b>	<b>62</b>	<b>Total</b>	<b>\$448b</b>

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				
<b>Total</b>	<b>\$3.91T</b>	<b>Total</b>	<b>\$295b</b>	<b>Total</b>	<b>\$229b</b>	<b>Total</b>	<b>\$180b</b>

# Lanes Are Blurring

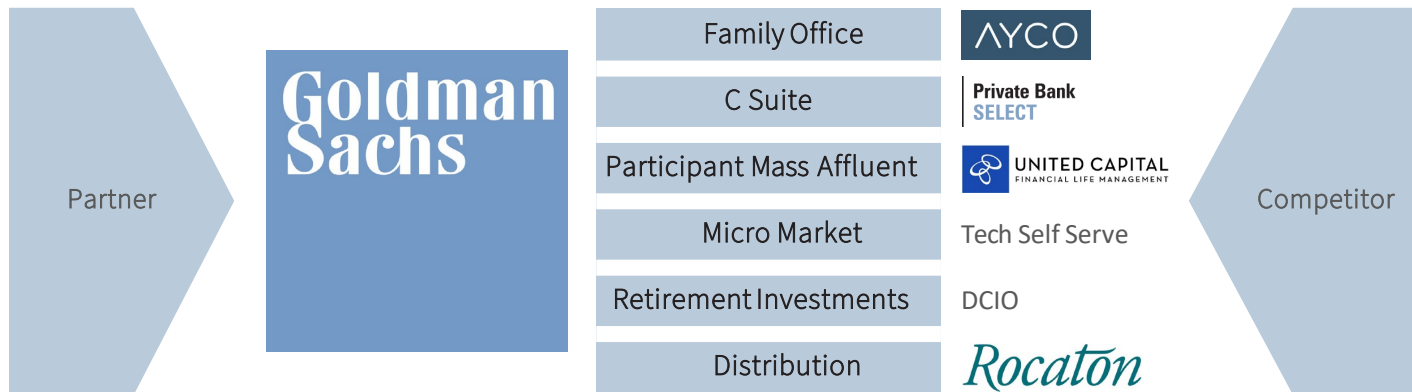
Percent of Recordkeepers that Indicate Overlap with Advisor/Consultants on Specific Services, 2019



n = 12

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

## Building a New Business Model, 2019



# Retirement Advisory Firm Challenges

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

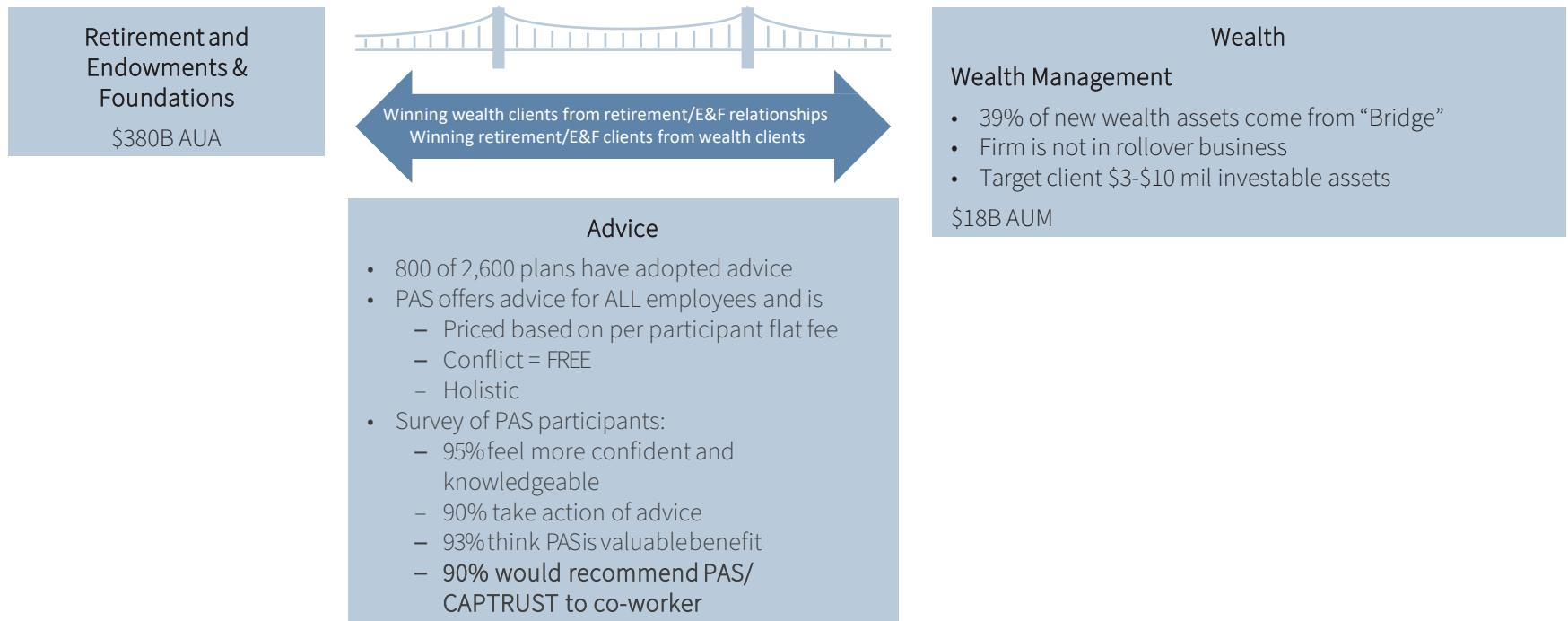
- Current Multiple Levels
- Buyer to Seller Ratio
- Economy





# The Game is Changing

## The Bridge from Retirement to Wealth



# Today's Discussion

## Change is Impacting All Financial Services

## Retirement Firm M&A What to *Know* Now

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- Operating companies emerging
- Buy-Side table stakes forming
- M&A increasing
- Multiples peaking

## Retirement Firm M&A What to *Do* Now

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



# Growing Operating Companies

Professionally Managed, PE Capitalized, Scaled

Firm/Platform	Ret AUA (B)	Ret Plans	Ret Rev (m)	Firm Rev (m)	Ownership
CAPTRUST	\$480	2,975	\$140	\$255	Employees, GTCR (PE)
RPAG (Platform)	\$300	1,750	\$100	\$2000	NFP
NFP	\$200	2,200	\$161	\$2000	MDP, HPS (PE), Employees
Sageview	\$115	1,200	\$43	\$47	Aquiline, Employees
HUB - GRP (Platform)	\$51	3,375	\$6	\$2400	HUB
HUB International	\$45	2,000	\$60	\$2400	Hellman & Friedman (PE), Employees
Gallagher	\$45	1,700	\$75	\$8000	Public
Lockton	\$43	1,231	\$65	\$2000	
OneDigital/Resources	\$41	2,300	\$70	\$600	Onex, New Mountain (PE), Employees
Pensionmark (Platform)	\$41	3,583	\$41	\$42	Employees, CAPTRUST
CBIZ	\$40	1,406	\$32	\$1000	Public
Marsh & McLennan Agency	\$37	1,500	\$30	\$2000	Public
USI	\$23	1,800	\$75	\$2000	KKR(PE), Employees
SRP (Affiliation)	\$15	825	\$15	\$15	Firm Owners
Alliant	\$14	600	\$11	\$1700	Stone Point (PE), Employees
Cerity Partners	\$12	600	\$11	\$1700	Lightyear (PE), Employees
Alera Group	\$2	150	\$2	\$600	Genstar (PE), Employees



# 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



# 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



# Retirement Advisory Firm Multiples – The Peak

Multiple Range Chart and Assessment for Retirement/Wealth Advisory Firms, 2021 Q1

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.	11.00 – 12.00X
Retirement & Wealth Advisory Affiliated Firms - Roll-Up - No Platform (\$10M Rev +)	Separate independent firms joined in integrated purchase but no centralized platform add-on.	10.00 – 11.00X
Retirement & Wealth Advisory Firm - Regional Elite (\$8M Rev +)	Regionally scaled ensemble business typically with multiple offices.	9.50 – 10.00X
Retirement & Wealth Advisory Firm - Elite (\$2-8M Rev)	Elite single-office business.	8.50 – 10.00X
Retirement Advisory Firm (\$750K-2M Rev)	Emerging single-office business.	6.0 - 8.50X
Retirement Advisory Practice/Book (< \$750K Rev)	Practice/Book of business.	4.00 - 6.00X

Source: WRG



# Today's Discussion

Consolidation is  
Impacting  
the Entire Financial  
Services Industry

Retirement Firm M&A  
What to *Know* Now

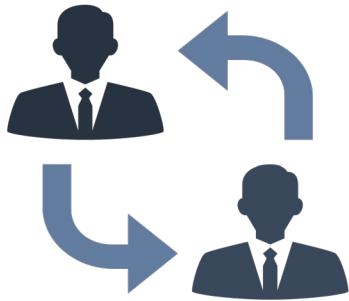
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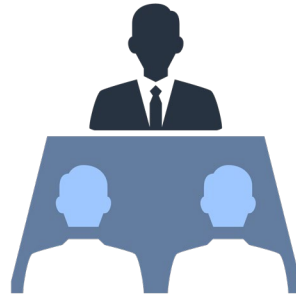


# What Strategy is Most Appropriate for You?



## 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





# 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



# Seller Preparations to Increase Value

## Moves to make now to help build enterprise value

### ▶ Business Plan

- Develop and maintain a formal business plan and evolve the plan as the business grows and changes.

### ▶ M&A Student

- Become a student of the M&A marketplace and understanding of what drives the value of a practice.

### ▶ Financial Reporting

- Institute a tight financial reporting process focused on a detailed profit-and-loss statement.

### ▶ Client Agreements

- Review all your client and regulatory agreements and fully understand what they say.

### ▶ Fee Model

- Transition your clients entirely to a fee-based model. Add a cost-of-living escalator.

### ▶ Balanced Book

- Review and improve your client revenue concentration and diversity.

### ▶ Wealth Advisory

- Continue developing a wealth advisory business from your retirement plan client participants.

### ▶ Next Generation

- Put in place a written succession plan and hire talented next generation staff.

### ▶ Formalize Arrangements

- Formalize any arrangements with advisers who affiliate with your firm but who are not actual members.

### ▶ Capital Gains

- Be sure that you allow one year for any new partners to receive proceeds as capital gains.



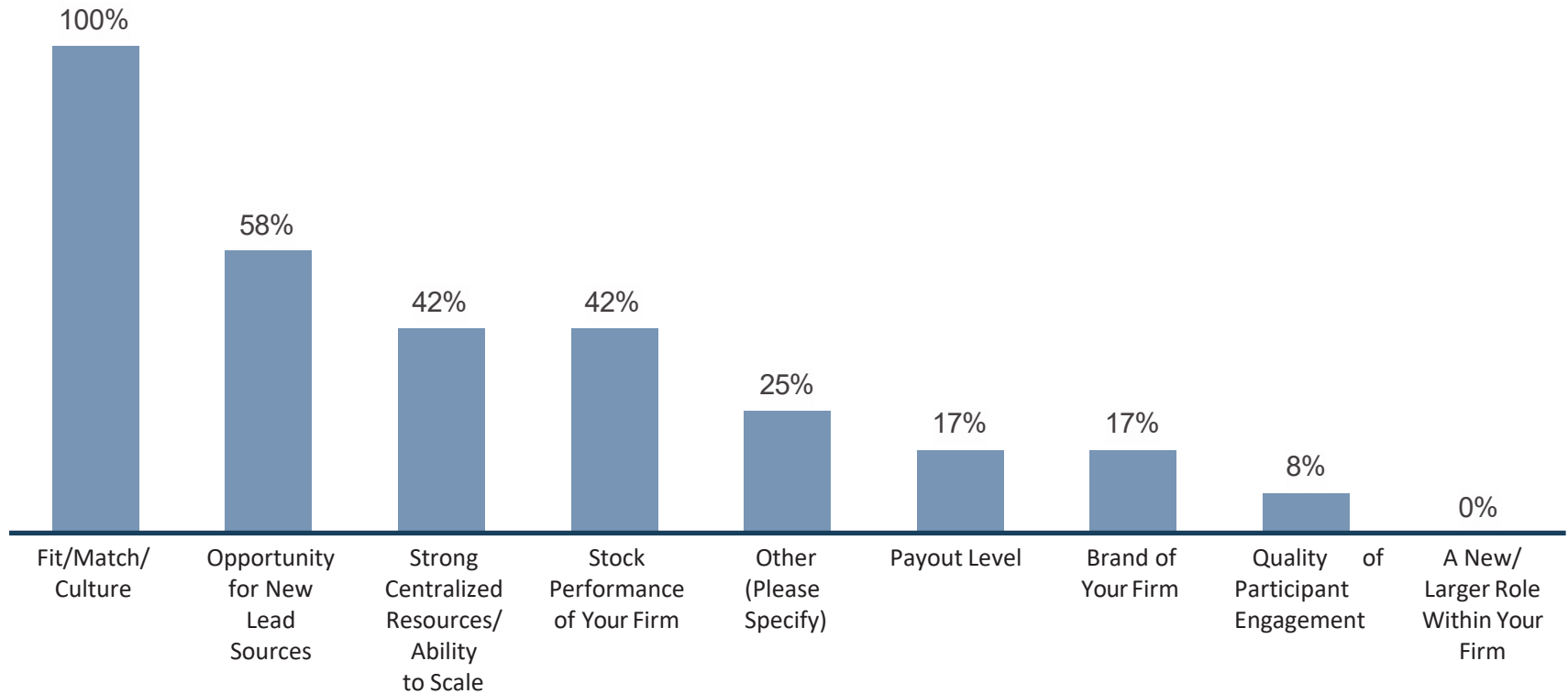
# M&A Transaction Structure

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



# Culture Over Cash

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



*n* = 11

Source: RLF/WRG 2020 SRAF Survey



# Sell-Side Process



# Where Does An M&A Advisor Add The Most Value

Survey of WRG Retirement Advisory Firm Clients

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

