HIGHTOWER

Beyond the Paycheck™

The Emotional Aspects of Selling Your Advisory Business

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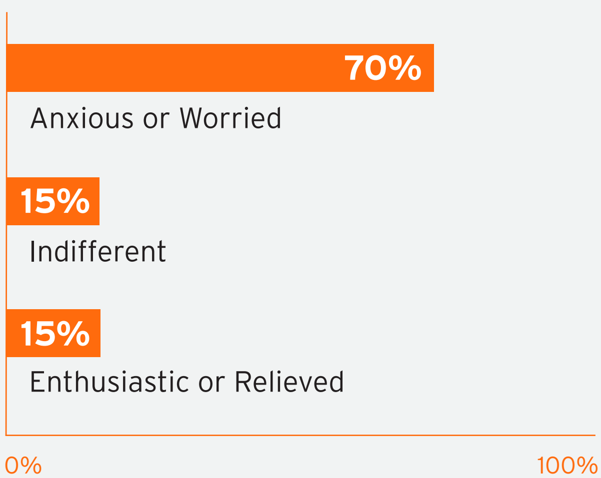
At some point in time, many financial advisory business owners will find themselves at a crossroads. They may be looking for ways to grow their businesses while continuing to deliver personalized service, feel overwhelmed by business management tasks that distract them from client-servicing or are thinking about succession planning.

Should they go it alone or look for external resources to help them expand opportunities, build infrastructure, penetrate new markets or plan for succession? If they choose to look for outside help, a likely path may be to explore partnering with a national wealth management firm or an aggregator.

Recent research, conducted by market research firm, Optima Group, Inc. for Hightower Advisors, sought to better understand how advisors evaluate acquirers. The research explored their hopes, expectations and concerns in weighing these opportunities. In one-on-one interviews with RIA business owners, we learned that while capitalizing part or all of their firm's ownership is a significant consideration, the decision goes well beyond the paycheck.

How does the thought of partnering with an RIA aggregator make you feel?



Knowing when the time is right

Advisors acknowledge a trend toward consolidation. They point to the strong economy and current seller's market, which may be encouraging transactions before a downturn and potential declines in valuations – but would selling their business be right for them?

Some advisors say they periodically "take the call" from aggregators, while others consider selling as "a last resort." Those who entertain offers say, "the most important reason would be to improve the client experience."

However, for an entrepreneur who owns a financial advisory business, it can be difficult to think about joining forces with another firm despite potential advantages.

A collaborative partnership is preferable

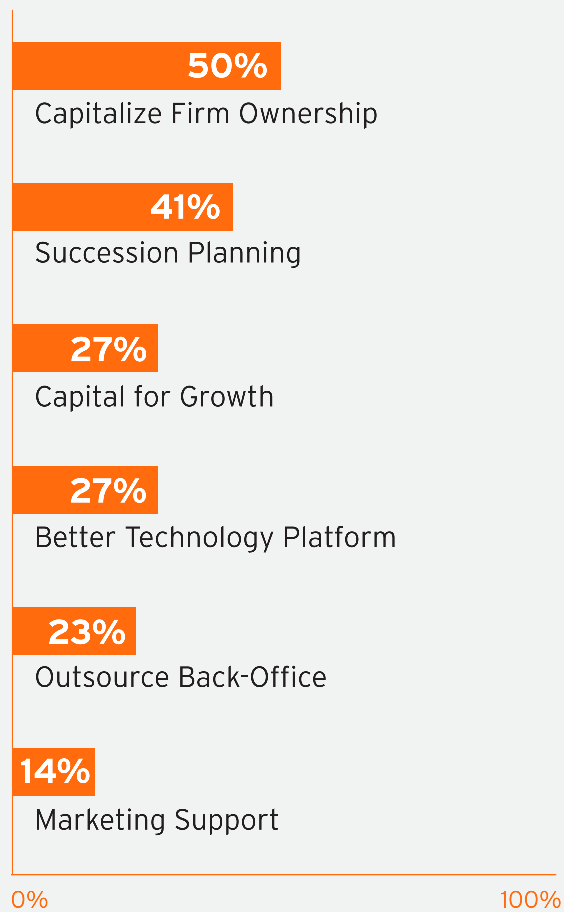
Advisors know there are different models for aggregators, but many were unaware of specific differences between these firms. However, they did express concerns about the deal structure – with many indicating dissatisfaction when an aggregator prioritizes taking their firm's payout from profits first, and the acquired business's portion is at risk. They say they would prefer a collaborative relationship in which incentives are shared and interests are aligned.

Other factors they consider include retention of firm ownership, whether they have the option to retain their brand identity versus leveraging the brand of the aggregator, and whether they gain access to resources that can help them grow.

Weighing the benefits of partnership

About 40% of advisors interviewed say they've considered selling to an aggregator and are willing to listen to opportunities. For them, beyond capitalizing some value, the main drivers are business growth and succession planning. In addition, advisors want to focus on doing what they do best, working with clients, and they would welcome support for functions that distract them from serving clients. Advisors understand there are potential benefits that come with size and scale, such as stronger buying power that translates to better resources for them and more favorable pricing for clients.

If you were to enter into a partnership with an aggregator, what would be the primary driver(s) of such a decision?



The fit must be right

All of the advisory business leaders interviewed say their firm's culture and values are paramount and "if an aggregator does not represent our core values, it would be a deal breaker." They are also entrepreneurs who value decision-making control and want to ensure client relationships will continue to come first.

Despite the benefits of a large brand name with support, many practice leaders prefer to retain their identity.

What would be your primary concern(s) in entering into a relationship with an aggregator?

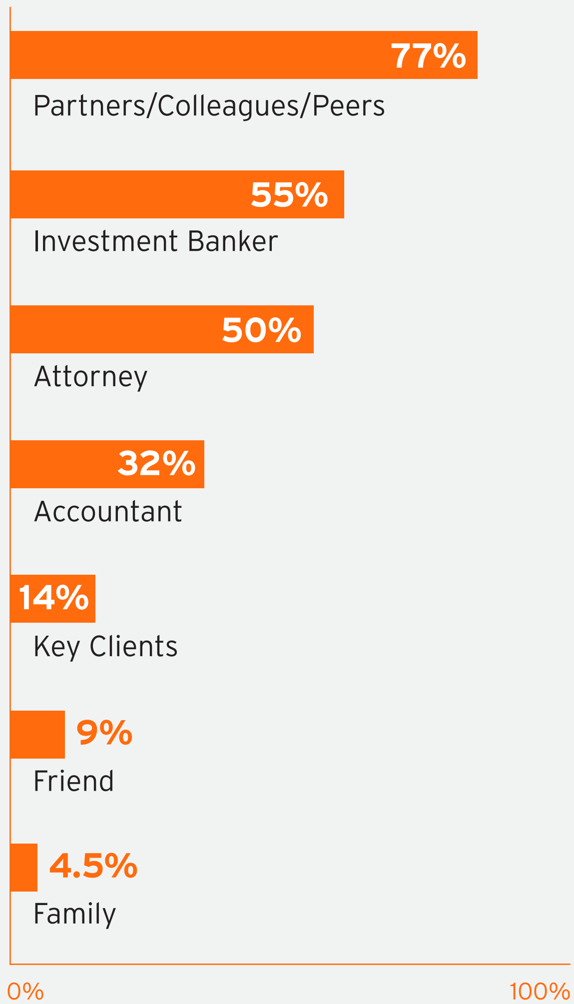
> "I don't want to work with an aggregator who puts all of the risk on the RIA; they take a first position on future cash flow; you're selling a future revenue stream and they'll get paid whether or not you're making money"

Choosing a partner is like choosing a spouse

One advisor says partnering with an aggregator is like entering into a marriage, and expressed concerns about potential surprises, since "many marriages end in divorce." Advisors have often built and nurtured their businesses for 20 to 30 years or more and feel protective of their firms. As such, they feel obligated to take necessary precautions. Advisors say they would do their homework before agreeing to a deal, including checking the firm's reputation and compliance history and assessing its culture and target market alignment.

Before making a decision, potential sellers would consult people they consider knowledgeable and informed, such as partners, colleagues and peers, industry specific investment bankers, and attorneys. It would be especially important, they say, to seek the input of other financial advisors who have already partnered with the aggregator in question to learn whether "promises made were promises kept, and what worked and what did not." In addition, they would seek information from custodians who would have insights into the firm's reputation.

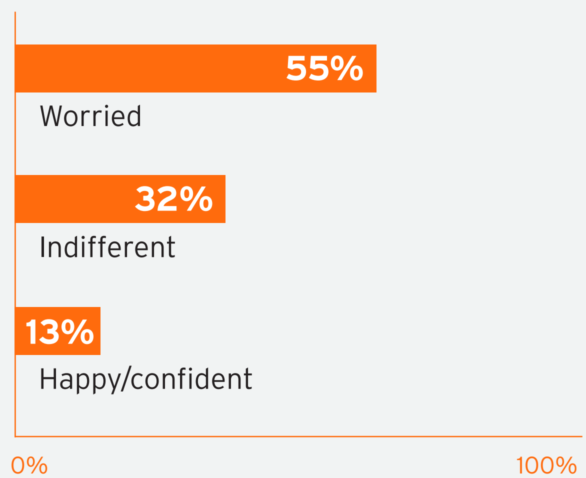
If you were to consider partnering with an aggregator, who might you consult with in the decision-making process?



Trust, but verify

Most advisors admit to being anxious about losing control and say that "as with anything new, there will be some apprehension...a certain level of anxiety." However, advisors say they would not enter into a partnership without a very thorough due diligence process. They may even enjoy relinquishing control over certain aspects of their business, such as back-office operations. Although there may be some worry at first, "with time comes trust."

How do you think you would feel about relinquishing control over aspects of your business?



The transition must be smooth, especially for clients

Advisors feel confident that once they make the decision to sell part or all of their business to an aggregator, clients would follow their lead and trust that it is the right decision — even if they are at first slightly concerned, because "if handled correctly, it should be seamless."

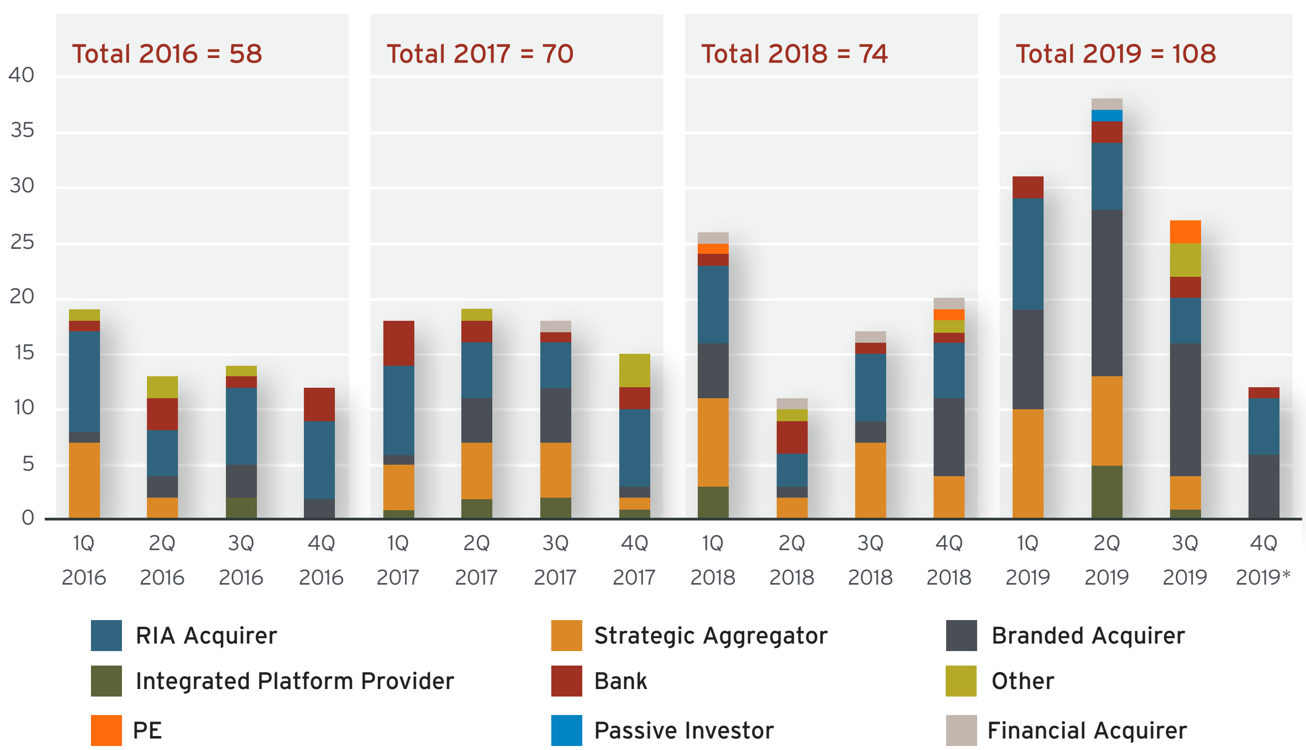
Advisors who have already made the transition say that having a helpful project manager with the acquiring business is invaluable to ensure a smooth integration, and that there are benefits they did not realize ahead of time, such as the value of a supportive community or the removal of some back-office operations like benefits and payroll.

Overcoming the emotional considerations

While partnering with an aggregator makes financial sense, a financial advisory business owner must also feel confident that the acquiring firm's culture and values, as well as deal structure, make them comfortable that the two firms' goals and values are aligned. The best way to do this is to get to know the firm and some of the advisors who have already made the transition ahead of time.

If you're an advisor considering how you can achieve faster growth or scale your business, give us a call at (917) 580-6051 or visit our website, hightoweradvisors.com. Get to know Hightower Advisors and how we help advisors and their clients achieve their goals.

Number of RIA Acquisitions



Source: How Independent Broker-Dealers Use M&A to Build their Businesses, Fidelity Investments

**Data as of 10/31/19*

Industry data demonstrates the trend toward consolidation, with the number of RIA acquisitions increasing over the past several years, up from 58 in 2016 to 108 in 2019.

The three main aggregator models

Below is a summary of the three main types of acquirers, although not all fit neatly into one of these buckets. In addition, larger RIAs, banks and other firms are periodically involved in transactions similar to branded acquirers.

	Strategic Aggregators	**Branded Acquirers**	**Integrated Platform Provider**
Description	Generally take a majority (but not 100%) ownership	Take significant (up to 100%) ownership	Do not take an equity stake; RIAs rent operational support
ADV	Advisory firm may be able to retain independent ADV	Advisory firm becomes part of aggregator ADV	Advisory firm retains independent ADV
Brand and Investment Philosophy	Advisory firm retains brand and investment philosophy	Advisory firm adopts aggregator brand and investment philosophy	Advisory firm retains brand and investment philosophy
Ownership/deal	Equity provided by acquirer and ownership transition to shared cash flows, sometimes capped or limited by acquiring firm	Majority to 100% stake; 20-30% upfront in cash and acquirer equity	No ownership change; RIA pays ongoing fee
Post-deal Model	Entrepreneur remains independent to grow	Becomes part of a unified whole	Wholly independent with benefit of platform
Representative Aggregators	▪ Focus Financial Partners ▪ Hightower Advisors	▪ Mariner Wealth Management ▪ Rockefeller Capital Management ▪ United Capital ▪ Hightower Advisors*	Dynasty Financial Partners

Source: How Independent Broker-Dealers Use M&A to Build their Businesses, *Fidelity Investments and Optima Group, Inc. research*

**Hightower never enforces conformity with brand or investment philosophy. It is a choice for the acquired firm.*

HIGHTOWER

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