Alliance for Registered Investment Advisors

HOW TO *GROW BIONICALLY* VS. *ORGANICALLY* WITH AN M&A STRATEGY

AN aRIA CASE STUDY

BY BRENT BRODESKI, CEO, SAVANT CAPITAL MANAGEMENT

OVERVIEW:

Achieving a healthy growth rate means RIAs need to add top advisory talent to develop business and oversee key relationships. RIAs can acquire such advisors organically (hiring or developing them) or bionically (partnering with key talent via mergers and acquisitions). While both strategies have their pluses and minuses, a bionic (inorganic) strategy has tremendous upside potential and can be extremely effective in driving growth. However, choosing the wrong merger partner or acquisition target can deal your firm a crushing blow.

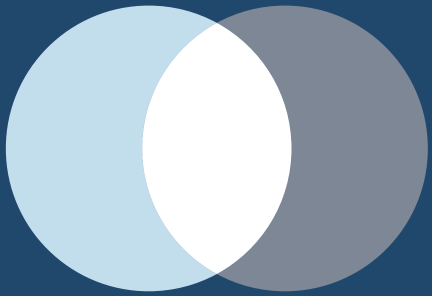
Are you maintaining a 15% annual growth rate? Doing so is critical. Absent healthy growth, it is impossible to provide good value to your clients, your team and the communities you serve. Growing requires developing top advisory talent. In our experience doing this organically is not easy. Thus, it can be more efficient to go "bionic" and acquire or merge with another RIA to bring top talent to your firm.

KEY TAKEAWAYS:

1. Growing your own advisory talent is a good strategy but it takes a lot of time.
2. Recruiting top quality advisors and expanding into new markets is difficult, expensive, risky and time consuming.
3. An efficient way to grow is by acquiring top talent via merger with another RIA.
4. Close alignment of culture, values, philosophy and a mutual commitment to growth helped us succeed in our recent M&A transaction.

KEY STRATEGY

BIONIC GROWTH



Acquire or merge with another RIA to bring top talent to your firm.

INTRODUCTION & EXECUTIVE SUMMARY:

Registered Investment Advisors (RIAs) may eventually plateau if they rely strictly on their founding advisors to drive revenue growth. This approach may be a limiting scenario for your clients, your team or your firm.

One approach is to allow growth to be marginal and go into "harvest mode" to maximize current cash flow while accepting the inevitable decline/stagnation of revenue scenario. Alternatively RIAs can drive revenue growth by developing or recruiting advisory talent. Experience tells us this is not easy. It is time consuming, expensive and risky.

Alternatively RIAs can jumpstart the acquisition of top advisory talent through mergers or acquisitions. After organically growing to $2+ billion in AUM since our inception in 1986, Savant Capital Management, our Rockford, IL based RIA, merged with The Monitor Group (TMG), a nearly $500 million RIA in McLean, VA.

While there were challenges (see Exhibit 1: Merger Related Challenges), the merger jumpstarted our growth and provided an efficient way for Savant to leverage its existing infrastructure and enter a new growth market. Most importantly we found the merger was a very efficient way to expand our advisory team by adding an entire team of seasoned advisory professionals in a robust growth market.

The main reason that the merger was a success was that the two firms had close alignment of culture, values, investment and planning philosophy, and a commitment to growth (see Exhibit 2: Savant's 16 Point Go/No-Go M&A Checklist).

CHALLENGE:

Historically Savant had grown 20%+ annually relying primarily on our founders' abilities to develop new business and the firm's ability to develop the talent needed to support this growth. However, over time, we became a dominant advisory firm in our market outside of Chicago, IL. At the same time our founders became increasingly busy dealing with management concerns and focusing on *(continued on page 5)*

JUMPSTART GROWTH

GROW YOUR TEAM

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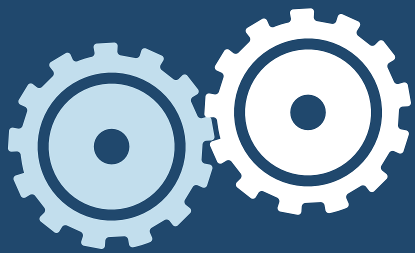
EXHIBIT 1: MERGER RELATED CHALLENGES

1. Merging two different advisor compensation systems. While The Monitor Group advisors liked the additional upside inherent in Savant's compensation system, for the first time a significant part of their compensation was directly correlated to new business development. This caused some stress for our newly merged advisory team.



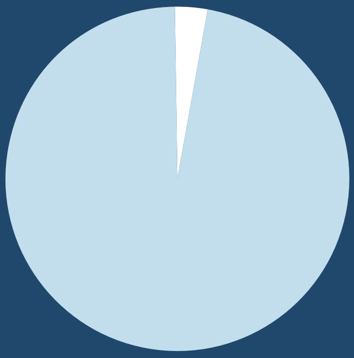
Close alignment of culture, values, and philosophy is vital.

2. The power in McLean, VA went out (big storm) for three days the weekend we had scheduled to integrate technology platforms. This was an unexpected curveball.

3. One lead advisor left to join a local competitor just prior to the transaction closing. This created some challenges in communicating with his clients, and created additional work for the remaining team.

4. Two key people had not signed non-compete/non-solicitation agreements requiring us to scramble to entice these individuals to sign our agreement prior to closing.

5. The Monitor Group clients needed time to come around to the fact that they would benefit from being part of a much larger firm. About 3% of clients transferred their assets elsewhere as result of the merger.



Retained over 97% of client relationships after merger.

6. Change is hard. As such, the stress level was elevated for several months following the closing for both teams.

7. We communicated a lot with the new team. Still, we now realize we should have communicated 5X more.

leadership instead of revenue generating activities. We needed to find new ways to grow, while trying to increase our business value.

Our preliminary efforts revolved around three key strategies:

1. Internally developing talent.
2. Starting green field offices in nearby communities.
3. Recruiting existing advisors (with books of business) to jumpstart our sales efforts and supplement founder led growth.

However, each of these strategies presented their own difficulties.

Internally developing talent has always been a strength.
The advantage of this approach is that it is the most profitable and least risky approach. Allowing young talent to grow up with you provides a "slow burn" method of developing talent to be effective at business development, the highest value activity in any business.

However, it is very difficult to accelerate this process. It takes many years, lots of energy and effective leadership to organically develop top talent. And there could be the reality that talent you thought would stay on a steady growth trajectory, suddenly levels off or even leaves the firm. And while, even today, we still think talent development is the best long-term growth strategy, it proved to not be a high-octane (bionic) strategy.

Every new office we opened was a green field opportunity. We either relocated an existing advisor(s) to the new community or hired a new advisor to start a new office from scratch. The good news is that each new office has achieved the scale required to be self-sustaining. Still, in retrospect, we learned that creating a new office from scratch is difficult, risky and expensive. The cost related to funding a new office, one without significant initial revenue, is high. It also takes lots of management bandwidth and time to build a brand, revenue and a positive reputation in each new community. It requires patience, commitment, and the willingness to accept near term losses for longer term potential.

The third strategy was recruiting experienced advisors with existing books of business. So far, this strategy has been marginally successful at best. We learned that advisors from captive channels, such as wire houses, are very different from us. In addition, large brokerages throw crazy money at advisors in the form of recruiting *(continued on page 7)*

We needed to find new ways to grow, while trying to increase our business value.

IDENTIFY CHALLENGES

Starting green field offices in nearby communities can be difficult, risky, and expensive. Recruiting existing advisors can be difficult.

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EXHIBIT 2: SAVANT'S 16 POINT GO/NO-GO M&A CHECKLIST:

Savant uses the following 16 questions to identify whether an M&A partner is worth pursuing. These questions are posed early on to determine if we need to allocate the necessary resources required to pursue a given opportunity. If any of the following answers are "No" we proceed very cautiously.

- ☑ Does the candidate's culture align with and enhance ours?
- ☑ Is the deal accretive to our economics and does it reinforce our long-term growth strategy?
- ☑ Does the candidate firm and their people share our core values?
- ☑ Will the deal improve liquidity possibilities for all shareholders?
- ☑ Does the deal benefit non-owner constituents (i.e. our team, clients and community)?
- ☑ Does the target's investment and planning philosophy match our Evidence Based Investing approach?
- ☑ Does the opportunity enable us to have fun while becoming an industry leader?
- ☑ Is the opportunity in a desirable and growth-oriented location?
- ☑ Is the candidate eventually willing to adopt the Savant brand?
- ☑ Does the candidate embrace Savant's team approach?
- ☑ Is the candidate receptive to Savant's model and able to bring additional best practices and capabilities?
- ☑ Does the opportunity enhance or compliment our human capital needs?
- ☑ Would merging with this firm provide a significant growth opportunity in a current or a new market?
- ☑ Would we be excited to spend a lot of time with the key people in this firm?
- ☑ Is the M&A candidate attracted to Savant's Building Ideal Futures vision?
- ☑ Does the M&A candidate have a strong culture of compliance to assuage any concerns of regulatory non-compliance or disciplinary issues that we would be required to disclose?

and retention bonuses (up to 300% of annual production). We have found that most of these advisors focus on the allure of short-term benefits. As such, so far we have not been very successful attracting these advisors. And, we have become somewhat resigned to this reality.

SOLUTION:

Though we had achieved over $2+ billion in assets over 20+ years through organic means, we did not feel that "what got us here would get us there". Said differently, we needed to create a new approach to growth—both in acquiring advisory talent and more efficiently moving into new high potential growth markets.

The strategy we took was to go "Go Bionic". Savant Capital Management (2BB+), in Rockford, IL and The Monitor Group (nearly 500MM), in McLean VA, agreed to merge effective 6/30/2012. The goal was to grow the combined firm aggressively for the benefit of the clients, our team and the communities we serve. In addition, The Monitor Group was able to address their succession planning needs, upgrade their technology platform, and is now able to offer additional services like trust and 401(k) services (see Exhibit 3: Benefits of the Merger).

None of the founding principals desired liquidity since we believed the dividend and potential growth rate on Savant stock was higher than investing our capital elsewhere. Instead we created a unique operating agreement, capital structure and succession-planning platform that allowed the founding shareholders to maintain their equity and dividend even after they eventually retire. For minority shareholders we created a share class that provided certain protections and a liquidity mechanism that triggers when they reach retirement or choose to leave the firm. This provided minority shareholders confidence to own units in a closely held and controlled company that is overseen by a board of managers leveraging best-in-class corporate governance (including using outside board members).

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EXHIBIT 3: BENEFITS OF THE MERGER

SAVANT:

1. New office location in a high growth market.
2. Six new Advisors and additional support staff.
3. Scale benefits related to adding 500MM new AUM on Savant's existing platform and infrastructure.
4. New capital structure that provides a way to offer opportunity and ownership to minority owners and the next generation of professionals.
5. Gained valuable M&A experience.
6. Transaction accretive to Savant valuation.
7. Gained advanced estate planning and other niche planning expertise.
8. Raised Savant's visibility within the industry.

THE MONITOR GROUP:

1. Addressed succession planning challenges.
2. Ability to provide trust and 401(k) services to existing and new clients via Savant's platform.
3. Enhanced technology platform.
4. Access to Savant investment and planning specialists.
5. Transaction accretive to TMG valuation.
6. Increased ability to focus on business development, relationship management and advising clients.
7. Enhanced compensation opportunity.
8. Ability to eliminate focus on non-advisory areas like HR, compliance, technology.
9. A more experienced and specialized professional management team.

RESULTS:

So far, the combination has been a success. The combined firm retained over 97% of client relationships and all of their key advisors and team remain with Savant today. The speed of growth in McLean (Savant East) has accelerated as their team has been able to re-focus on sales, relationship management and mentoring young advisors. Our McLean advisors now leverage Savant's marketing capabilities, technology and infrastructure. They no longer worry about things like compliance and HR.

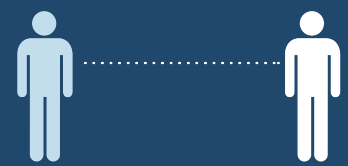
One of the most important reasons for our success was the close cultural alignment of the firms. The core values of the two firms (excellence, trustworthy, respect, faithful, lifetime learning and growth) lined up almost perfectly. The firms shared a common investment and planning philosophy—both firms believe in a passive investing, strategic asset allocation and provide comprehensive integrated wealth management.

Of course we hit some speed bumps. Next time we will slow the technology integration by a few weeks. In retrospect, we would have spent a bit more time building internal relationships in the weeks leading up to and after closing. This would have made the integration less stressful.

The most exciting part is that in one transaction, Savant added 12 top team members including 6 advisory team members, all eager to embrace our brand (see Exhibit 4: Company Profile Pre and Post-Merger). We gained new expertise in areas like managing life transition, advising elderly clients with dementia, tax preparation and advanced estate planning. While we've struggled hiring top advisory talent for many years, and spent a lot of time and money opening new client offices, our merger with The Monitor Group allowed us to instantly expand our team and establish a profitable beachhead in a high growth market.

LESSON LEARNED

BUILDING RELATIONSHIPS



Slow the technology integration a few weeks and spend more time building internal relationships.

EXHIBIT 4: COMPANY PROFILE PRE AND POST-MERGER

	Savant	TMG	Combined *At Merger on 6/30/2012*	TODAY'S FIRM *As of 9/30/2013*
Total AUM	$2,181,056,036	$469,455,000	$2,650,511,036	$3,388,096,890
Number of Clients	2,470	284	2,754	3,027
Number of Advisors	24	6	30	30
Number of Offices	8	2	9	9
Total Staff	72	12	84	90
Expected Growth Rate	16%	9%	16%	16%

CONCLUSION:

Organically developing your own talent, starting new offices and hiring seasoned advisors is often difficult, expensive and time consuming. Maintaining 15% annual healthy growth is critical to the long-term success of an RIA whether you measure success in financial terms and/or by the value you provide clients and team. Merging with other top RIAs can provide an excellent way to grow your talent pool and expand into new locations that can fuel sustainable, above average growth. If this approach seems like a short cut, it is anything but. Consider the risks to your business if executed on poorly. To mitigate such risks, make sure M&A partners are well aligned with your corporate values, have compatible goals, and are philosophically aligned. Learn from the experiences of those who have gone through it.

ABOUT SAVANT CAPITAL MANAGEMENT:

Savant Capital Management offers investment management, financial planning, integrated wealth management, tax and family office services to individuals, trust funds, retirement plans and non-profit organizations.

Savant has regularly received local and national recognition. For the past seven years Savant has been named by Barron's magazine as one of the 100 Best Independent Financial Advisors in the United States. For the last 11 years Savant has earned a place on the Bloomberg/Wealth Manager/AdvisorOne "Top Dog" list. In addition, Savant has been included on top advisor lists in InvestmentNews (one of the 50 Largest Wealth Management Firms in the Nation), Financial Advisor Magazine (A Top-Growing Independent RIA), BusinessWeek (Most Experienced RIA List), Chicago Magazine (#1 independent financial advisor in the Chicago area) and Forbes (Top 50 Registered Investment Advisor).

For more information on Savant Capital Management, log on to www.savantcapital.com.

ABOUT ARIA

aRIA, the alliance for RIAs, is a think tank study group composed of six elite RIA firms that collectively manage more than $20 billion in client assets, and Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. The group offers insight for advisors considering ways to enhance their firms' enterprise value.

Members include Brent Brodeski, CEO of Savant Capital; John Burns, Principal at Exencial Wealth Advisors; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Partners; Matt Cooper, President of Beacon Pointe Advisors; Neal Simon, CEO of Highline Wealth Management; and John Furey, Principal of Advisor Growth Strategies, LLC. The group meets regularly, releasing thought leadership pieces of interest to both independent and wirehouse advisors interested in exploring long-term growth strategies.

On the Web at: www.allianceforrias.com

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