

RIC EDELMAN'S RIA EMPIRE TO MERGE WITH LEGACY THE MUTUAL FUND STORES IN \$3 BN DEAL THAT TAKES FINANCIAL ENGINES PRIVATE

05/01/2018 Originally Published by Brooke Southall, RIABlz

The PE owner of \$21-billion AUM Edelman Financial Services LLC has purchased \$169-billion AUM Financial Engines Inc. with plans to leverage the heck out of the later-arriving robo-advisor in order to justify a whopper of a price tag.

Hellman & Friedman LLC, the giant San Francisco-based private equity firm that bought Ric Edelman's Fairfax, Va.-based RIA in late 2015, will now pay \$3.02 billion in cash to add the giant Sunnyvale, Calif.-based 401(k) robo to its holdings.

"I'm super-impressed that Financial Engines was taken out at a 41% premium and at a price of \$3 billion," says **Dan Seivert**, CEO of **ECHELON Partners**, an investment bank in Manhattan Beach, Calif. "I think it's really exciting that somebody is making such a big bet on the space."

Of the \$169 billion managed by Financial Engines, about \$12 billion is part of the retail RIA formerly known as The Mutual Fund Store. Hellman & Friedman invested \$35 billion in its 29 years of existence. It was also the last owner of LPL Financial before the national broker-dealer's successful IPO

Financial Engines bought the The Mutual Fund Store from Warburg Pincus in late 2015 for \$560 million, when it had about \$9.5 billion of AUM.

'Creative' competition

The new Hellman & Friedman-owned RIA will essentially be a \$34-billion retail RIA under one ADV with an additional \$135 billion of 401(k) assets managed largely by Financial Engines' automated processes.

"It almost sounds like a reverse merger," says Tim Welsh, president of Nexus Strategy, a consultancy in Larkspur, Calif. "Financial Engines is so much bigger."

The new RIA's managed assets place it in a virtual dead heat with Creative Planning Inc., the Leawood, Kan.-based RIA that manages more than \$34 billion of assets.

Peter Mallouk, Creative Planning's CEO and founder, says his firm's assets climbed above its usual 30% growth rate in 2017. Unlike Edelman Financial, his firm has no radio show to drive referrals. Instead, Creative Planning relies on TD Ameritrade and Charles Schwab & Co. branches and motivational speaker Tony Robbins for leads.

Add to that, Mallouk says, Creative Planning's number one source of new assets: organic referrals. Mallouk says he is content to stay on his organic-growth path, regardless of what deals other big national RIAs may strike.

"I think we overlap a little but generally serve different clients," he says. "I expect to see more consolidation as everyone tries to scale to survive and compete in the future. I have zero plans or desire to acquire any firm. We plan to continue to grow one client at a time

Rollover wager

One variable to watch in this deal, which is expected to close in the third quarter, is Financial Engines' \$135 billion of 401(k) assets, which are managed for slim margins on behalf of 11 million individuals, many of whom work at Fortune 500 companies.

"If you do a merger, it has to be one plus one equals 100," says Welsh.

The bet here is that all those Financial Engines customers would want to roll over their 401(k)s to the retail side. Edelman says his new Edelman Financial-stoked RIA is poised and ready to address those 11 million investors.

"Suddenly I have the ability to reach all these people with our education -- and at little to no cost," Edelman says, referring to the firm's hundreds of seminars, nine books in print, a monthly newsletter and massive geographical expansion.

But making retail hay out of those 401(k) assets will prove far more difficult than Edelman imagines, according to Welsh. "Even Fidelity does a really lousy job with rollovers and Wells Fargo is being investigated for its practices. It's no lay-up."

Seivert counters that although it be may no lay-up, the opportunity to realize those 401(k) assets is a short-range jump shot, well within the range of the incomparable Ric Edelman.

"[Edelman is] amazing at it," he says. "He's a master at the multichannel approach with his books, seminars, robust website and TV appearances. Other than Ken Fisher, nobody's close."

Radio star wars

Edelman notes that the legacy retail branches of The Mutual Fund Store and current Edelman branches have "very little geographical redundancy." The combined entity will have 330-plus human advisors, with each side contributing about half that number.

That said, the two radio programs that propelled the two RIAs to massive AUM are actually redundant in many instances -- some are even broadcast by the same radio stations. That may result in some eliminations, though such decisions have yet to be made. "Do we need two radio stations in the same market?" Edelman asks

Adam Bold, The Mutual Fund Store's founder and radio star, has retired from the financial advisory business.

'Edelman Engines'?

One decision yet to be made in the wake of the deal's announcement is how the firms' names will be reconciled.

In a reverse-branding scenario, Financial Engines could assume the Edelman brand. Then again, Edelman -- like The Mutual Fund Store before it -- could be renamed "Financial Engines." A third possibility is some brand amalgamation or de novo solution, Edelman says.

Even with the branding unresolved, Edelman says he was happy to sign off on this deal having kept a close eye on how the Financial Engines- Mutual Fund Store deal has evolved.

"It was a stroke of genius," he says, and led to the invention of a new category of RIA service. In 2017, Ford announced it would take its mega-sized \$15-billion retirement plan and use Financial Engines' new suite of services to plan participants. Boeing Company also added Financial Engines' Personal Advisor program.

Financial Engines now dominates large-plan business advice, which means it can now use 401(k) business in the spirit of a loss leader, CEO Larry Raffone told Wall Street analysts in December.

"Part of the thing is, is now we have Personal Advisor and Personal Advisor is a way to kind of monetize smaller plans in a different way We've always kind of looked at whether or not we should go down-market," he said.

"We actually have a way with these down-market plans dominated by executives who want these services. So we actually feel like we've got a better mix, and so we've been looking at how we could take our platform, which is very scalable, simplify the offering, and then take it out in a way in which Personal Advisor is included in kind of a linchpin."

Preach it

That said, Financial Engines is playing defense against a new threat -- the invasion of Fidelity Investments into its 401(k)-advice realm. The shock waves of Financial Engines' decision to slash its own prices sent its share price spiraling down to \$26. It later recovered to \$35 before soaring to \$45 in the wake of today's deal announcement.

Another source of comfort for Edelman is his retail counterpart at Financial Engines -- John Bunch.

Edelman says that he and Bunch have been chummy for years, meeting at the bi-annual Tiburon CEO Summits where he also met Hellman & Friedman principals. Event producer Chip Roame declined to comment for this article because he sits on the Edelman board of directors.

But what this deal boils down to is a buyer creating a platform for a visionary superstar to do what he's been doing exceptionally well for decades, Seivert says.

"He just seems to have an endless amount of energy to evangelize."
