

\$3 BN DEAL OF EDELMAN, FINANCIAL ENGINES PUTS OTHER RIAs IN THE HOT SEAT

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In a blockbuster deal seen as remaking the digital advice landscape, robo advice pioneer Financial Engines is being bought for \$3 billion and combined with Edelman Financial Services.

Private equity firm Hellman & Friedman, which is a majority shareholder in Edelman, agreed to pay \$3.02 billion in an all-cash transaction. The deal is expected to be completed by the end of the third quarter.

The deal will bring together the sizable assets of Financial Engines — \$169 billion in AUM, agreements with more than 750 companies to manage over \$1 trillion in retirement assets and more than 140 locations across the country — with Edelman, which manages over \$21.7 billion for more than 35,000 clients across the country.

"The digital model is the future," says William Trout, who heads Celent's global wealth management practice. "Plus market share. Remember Financial Engines is the original robo advisor and 10,000 investors turn 65 each day."

Ric Edelman, currently chairman and co-founder of Edelman Financial Services, will be a board member and chairman of financial and investor education of the combined company.

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Financial Engines CEO Larry Raffone will become president, CEO and board member.

"We see tremendous alignment and commitment to our vision, and we believe the H&F partnership and the combination with Edelman is the best path for us to achieve our long-term strategic objectives," Raffone said in a statement.

Executives from both firms were unavailable for additional comment.

With digital advice expected to collectively top \$1 trillion in assets by 2020, and incumbents quickly gathering up billions in retail and institutional assets, large RIAs must make a move now into digital and extend their brands, observers say.

"I think [Edelman is] placing a bet on the defined contribution space," says Celent's Trout. "I think he's run as far as he can with his model and recognizes he needs to tilt the wheel to digital."

Industry consultant Tim Welsh agrees that Edelman is making "a huge bet" on the 401(k) market.

"He hasn't been in it up to now, so it's a big strategic decision," Welsh says. "Are there any real synergies between a traditional RIA and a digital 401(k) advisor? A deal like this only makes sense if one plus one equals five and there are vast synergies. Otherwise the risk, costs and disruption doesn't make sense."

Unlike other digital advice competitors, Financial Engines filed for an IPO in 2010, raising \$127 million in its debut. It has continued to build scale in its ongoing business of signing contracts with employers and plan providers. In February, it teamed up with human resources giant ADP to offer its digital platform to ADP's employer network.

Also, Financial Engines clients are able to visit an advisor. Only three years ago, Financial Engines acquired the Mutual Fund Store from Warburg Pincus for \$560 million to gain 129 storefronts across the country.

Across the wealth management industry, executives privately expressed shock at the tie-up.

"This is a major deal in our industry," said John Furey, principal of Advisor Growth Strategies in Phoenix. "Two leading scale providers in two different channels of distribution.

"They should be able to build a unified process across private wealth and retirements plans and hopefully cross pollinate," Furey noted, adding the combined company should also benefit from the capital structure, which could lead to further deals.

"They should have the ability to acquire and do more M&A," he said. "Could be for capabilities or assets."

The benefits of the deal for Edelman, says **Carolyn Armitage**, managing director of **ECHELON Partners**, a leading M&A consultant based in Manhattan Beach, California, include "synergies, accelerated revenue growth, and improved profitability through economies of scale."

One potential challenge for Edelman, Armitage says, will be "efficiently integrating the two firms while sustaining

With its scale and physical footprint, the combined company will represent an evolution in wealth management, says Grant Easterbrook, CEO of the 401 (k) digital provider Dream Forward.

"People have been asking for a long time what financial services will look like in 2030," Easterbrook says. "People look at self-driving cars and think there will be no more taxi drivers in 10 years. The ultimate evolution is a really good tech platform that screens the needs of average clients, so that human advisors become more efficient and effective, and only step in for major decision points or for complex HNW needs.

"It's a utopian dream and we're not there yet," Easterbrook adds. "Edelman might be taking a short cut to defining that vision."
