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News Release

Bringing Buyers and Sellers Together

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Originally Published By Eric Garland, Advisor Solutions

When Richard Brown looks at his advisory business, he sees a robust future. He expects his Minneapolis firm, which currently has about $300 million in assets under management (AUM), to reach $600 million—perhaps even $1 billion—by 2011.

Recognizing that the landscape has changed and growth potential is not what it used to be, Brown, who is the Chief Executive Officer of JNBA Financial Advisors, Inc., says, “That’s a lofty goal.” The market correction over the last year has dented asset values and revenues at even the best-run firms. Projections of an AUM line rising smoothly upwards have had to be scaled back.

As a result, Brown has adjusted his thinking about how to reach his goal. Organic growth from existing clients will provide only half of the new business. The other half, he says, will have to come from acquisitions.

That’s why the launch of the TD AMERITRADE AdvisorLink℠ program represents a critical missing piece for Brown, and potentially for other advisors who custody and trade through TD AMERITRADE Institutional. The new program, created in collaboration with **ECHELON Partners**, a third-party investment bank specializing in M&A transactions for wealth management firms, was launched this past spring and will help qualified advisors on the TD AMERITRADE Institutional platform, as well as qualified prospective RIAs, who are looking to sell or merge their practices with other independent advisors.

“Many advisors want and need assistance with these often complex and intimidating transactions,” says Zohar Swaine, Managing Director at TD AMERITRADE Institutional.

“The TD AMERITRADE AdvisorLink program helps advisors get over the initial hurdle of trying to find an appropriate match and then positions them to receive valuable support services.”

As part of the program, ECHELON will identify and screen potential buyers and sellers, work closely with them during matchmaking and due diligence and provide expert assistance on deal structure and closings. “We expect that the next few years will provide unprecedented M&A opportunities as a result of the disruption in the financial services industry,” notes **Dan Seivert**, founder and CEO of Los Angeles-based ECHELON. “We are excited about the launch of this program, and we feel this initiative can help streamline the process and ensure that the right matches get made.”

THE DEAL PACE RESUMES

For Brown, one challenge in building by acquisition has been how to narrow the field to suitable candidates. He learned a lot about dealmaking when he worked for financier Irwin Jacobs, but he admits the first acquisition he did for JNBA didn't work out. "It's hard to find firms on your own," says Brown. "There are difficulties in getting standardized information. Then, how do you approach the firms? How do you start the conversation? When you talk, are you talking to buy, to merge or to do some kind of combination of the two?"

With the help of ECHELON, Brown has gotten a better handle on the kinds of firms he's interested in acquiring, as well as the key points to talk about with potential targets. Brown now has two deals in the pipeline, and he plans to keep looking for more opportunities through TD AMERITRADE AdvisorLink.

Brown is hardly alone as a potential buyer of RIA firms and individual advisor practices. Indeed, the independent advisor channel was in the midst of a transaction surge in recent years, as many sellers began to look for their exit, while larger firms like JNBA stepped in as buyers, looking for outside assets they could bring on board.

The turmoil in the financial system temporarily halted most deal activity. But now that the markets are thawing out, the pace of mergers is expected to pick up again. "While most RIAs are younger than wirehouse brokers, they are nonetheless aging," says Chip Roame, Managing Principal of Tiburon Strategic Associates, a financial industry consulting firm. "There will be a generational wave looking to exit." Just as important, a lot of RIAs have been buffeted by the steep market decline of the last year. Through much of this decade, many advisors built their businesses steadily, expanding their staff and adding more services as their client base grew and assets rose. But "over the last 12 months, the revenue side has been down for many advisors," says Michael Watson, Director of Product Management at TD AMERITRADE Institutional. "Yet their expenses remain the same, and it's difficult to reduce expenses. As a result, many of these advisors are open to working with another advisor. They're looking for economies of scale, for firms that have the resources to handle compliance, technology and other issues."

MAKING A MATCH

This is where TD AMERITRADE AdvisorLink enters the picture.

As Watson explains, there are several different types of buyers and sellers who could be attracted to the program (see box, page 4).

Other financial firms already offer matching programs for advisors, but this program provides a deeper, more consultative service.

"ECHELON captures valuable matchmaking information about both parties," says Watson. "Because we are leveraging an industry expert to qualify the buyers, they will be taking a more hands-on approach to help facilitate a deal."

These buyers, adds Watson, will be ones who already work with TD AMERITRADE Institutional and have demonstrated a solid record of organic growth. "Once they've mastered that, they're looking to get to the next level," says Watson. "They've traditionally grown through their own book of business and client referrals. Now, they want to find alternative ways to grow, such as mergers and acquisitions."

The process starts with a call to a TD AMERITRADE Institutional sales specialist. During an interview, the advisor will be asked to provide the following information about his or her practice.

- Revenues
- Assets under management
- Number and types of clients
- Investment product mix
- Employees
- Preferences for an outright sale or merger
- Equity ownership
- Geographic location

This information is added to the TD AMERITRADE AdvisorLink database, where it is reviewed by ECHELON for potential matches with buyers.

"We'll look at both quantitative and qualitative factors," says Seivert. "That's one of the key differences compared to other programs— the fact that it's intermediated by a firm like ECHELON that has been focused on wealth management transactions for years."

ECHELON's experience in arranging such deals can help give advisors a head start toward a successful transaction. Since its founding in 2001, ECHELON has conducted more than 60 M&A and advisory deals among wealth and investment management firms. "We think our involvement makes it more personable, less about technology and more about people," notes Seivert.

Once a potential match is identified, ECHELON will facilitate an introduction between the buyer and seller. "We'll set the stage for the parties to discuss the possibilities of joining up," says Seivert. "We'll encourage them to see if they're close in their philosophy of how to manage and work with clients. We will also look for similarities in product mix and clients served. It's important to ensure there's a good cultural fit."

Like a wealth management study group, the parties will have a chance to get to know each other a bit. If they decide to proceed, the transaction would move outside the basic framework of the program, and they would get assistance from ECHELON on key steps like determining a valuation, drafting a letter of intent, structuring the deal's financial aspects and conducting due diligence. Because ECHELON has developed a step-by-step deal process, there is an opportunity to conduct the standard deal tasks more effectively and efficiently. "The up-front planning is one of the strongest points of the program," says Seivert. "We can make the process much more efficient, since we have already taken care of many of the details that are typical in an M&A transaction."

In most cases, says Seivert, a deal among advisory firms requires nine to 12 months. For sellers, the first three to four months are spent preparing the company and the marketing materials that describe the company being sold; it typically takes another three to four months to contact and educate the prospective buyers. Once the top candidates are identified through a letter of intent, another three months are usually needed to conduct detailed due diligence and finalize the closing documents.

Another key goal of the program is to help buyers in the program fill their own deal pipelines with qualified sellers. "Most buyers don't know how and where to find acquisition targets, but TD AMERITRADE AdvisorLink's educational components can help a buyer do just that," says Seivert.

THE QUESTION OF PRICE

So what about the question that is often top of mind for sellers—how much is my firm worth?

The simple answer is: it depends. Each company's valuation is different, driven by the firm's cash flow, growth, scale and a host of other factors. That said, sellers should be prepared for offers that are below what they might have received a year or two ago. "Valuations are the byproduct of a firm's cash flow and the appropriate valuation multiple for that firm and the external market conditions," says Seivert.

"Most firms have seen a decline in both factors. On one hand cash flows are down and on the other hand valuation multiples are down because of lower buyer interest and reduced scale and growth by most sellers," Seivert adds.

Make a Connection

TD AMERITRADE AdvisorLink can bring together buyers and sellers in a streamlined, consultative process. There are several motivating factors for advisors to pursue a deal, including:

BUYERS:

- Advisors who want to merge with another RIA firm to expand into different markets or potentially increase the scale of their business.
- Advisors who want to bring on other advisors as employees of their firm, with or without equity ownership.

SELLERS:

- Advisors who want to sell their business to a third party because of planned retirement or other factors that would cause them to exit the industry.
- Advisors who want to merge with another RIA to focus on investment management or client service, without having to run a business or supervise staff.
- Breakaway brokers who want to become an employee of an existing RIA firm for the benefits of joining an established company and avoiding the time and work associated with a startup.

Therefore, sellers need to adjust to the reality of the marketplace. Brown, who is an active buyer and has a good feel for the going rate for desirable practices, says, "There is a fictitious number out there among RIAs that their business is worth 2.5 times revenue. That's not true. You have to take a variety of things into account to come up with a true value."

As just one example, Brown notes that a selling firm might have a client roster that is heavily tilted toward retirees. "I might feel confident that I can keep 95 percent of those clients," says Brown. "But they will never add any more money. In fact, if they're taking out $30 million a year in distributions, that means I have to find $30 million a year in that book of business to break even."

These valuation drivers are examined for firms participating in TD AMERITRADE AdvisorLink. Whether a buyer or a seller, the underlying trend is that deal activity is on the rise again, and firms that have more knowledge and skilled guidance should fare best.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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