



ECHELON
PARTNERS
Visionary Advice. Execution Excellence.

NEWS RELEASE

ROCKET FUEL

October 1, 2010

Originally Published By John J. Bowen, Jr., Financial Planning

When most advisors want to grow their businesses, they rely on organic tactics-client referrals, professional referrals and strategic alliances. That makes sense as these are relatively straightforward, proven steps that result in major breakthroughs. However, some advisors are finding that nonorganic options-acquisitions, in particular-are an excellent way to ramp up growth and build successful larger firms.

Obviously acquisitions aren't for every advisor. They can be extremely challenging and can take a lot of effort to make happen. What's more, acquiring another firm requires your own firm to be in a very healthy position, both operationally and financially.

As **Echelon Partners' Dan Seivert** pointed out in a report earlier this year: "The real buyers in 2010 will be larger firms that have emerged from the downturn stronger and leaner. Many of these firms were able to pick up new clients or get more from existing clients, meaning their assets, revenues and profits are likely to be at all-time highs. They are likely to be experiencing active growth already, but nonetheless will want to become larger at a faster rate than solely focusing on organic growth will allow."

With that in mind, here's a look at what it takes to execute an acquisition properly so that it does what it's supposed to do-maximize the value of your practice.

EIGHT STEPS

In an acquisition, one business takes control of the other through an exchange or a purchase. When done right, the result is a larger, more effective organization. Acquisitions allow you to acquire talent immediately and to achieve scale quickly-much more quickly than through organic growth alone. In addition, a good acquisition generates new efficiencies by creating revenue and cost synergies. It also can lead to new opportunities by creating access to new market and distribution channels, broadening your service capabilities and leveraging the client base of both practices.

A successful acquisition follows eight key steps:

Step 1: Identify potential candidates. Ask yourself questions such as: What is the ideal type of practice that would help you to achieve your goals? What is its primary niche? Where is it located? What is its position in the value chain? Use your answers to formulate a clear picture of the space where potential targets reside.

Answering these questions means performing a preliminary "SWOT" analysis of your practice to understand your strengths, weaknesses, opportunities and threats. Review your core competencies, service offerings and current plans for growth. Look again at your choice of business model, target market niche, ideal client profile positioning and marketing strategy. Examine your competitive pressures and any internal challenges you face.

Next, revisit your vision for the business and the specific goals you wish to accomplish. Perform a gap analysis, identifying what you are missing that you need to achieve your goals. This analysis will ensure that you are clear about your practice's long-term vision and enable you to set goals for the acquisition that support that vision. If you can't nail down a compelling strategic rationale for an acquisition, you're not ready to make one.

Step 2: Develop criteria to assess candidates. Create a short list of criteria that will allow you to identify and evaluate potential acquisitions. Consider the four to six factors that are most important to achieving your goals for the acquisition. In addition, consider any other characteristics that are significant (special expertise or price range, perhaps). Prioritize each feature, deciding what you can't live without and what you'd be willing to compromise on.

Step 3: Collect information and rank candidates. Armed with a clear understanding of the optimal target, collect information on potential candidates and score each one using the metrics you previously chose. You need to gather enough information about each target to be able to rank it according to how well it would help you meet your strategic goals.

Look for potential partners systematically: Outline a schedule and a budget for your search. Then decide where you will obtain information about potential targets. The source or sources you choose will determine the research process you'll use.

For instance, your broker-dealer or custodian may make third-party research available or provide a seller listing service. Your local business journal also provides listings of top financial advisors in your area who share your client demographic, as do online marketplaces like FP Transitions. You might even reach out to select financial advisors with whom you don't compete. And of course, investment bankers may be familiar with potential targets in your area.

Step 4: Approach candidates. Caution: It is extremely easy to make a misstep here, with enormous consequences. The price of a target can increase as much as 50% from the mere act of an advisor knocking at the door. The initial contact requires a thorough knowledge of the mergers and acquisitions space. Targets will engage in all kinds of gamesmanship, making it challenging to get the information you need. You might want to enlist a professional consultant for help. Once you identify which targets are appropriate and cooperative, select the best target (keeping in mind that you should continue to pursue as many suitable opportunities as possible).

Step 5: Investigate candidates. Initial due diligence should be at a high level-enough to get a summary view that will give you a general gauge of whether the firm is a good fit, without wasting a lot of time. Later on, after both parties have signed a letter of intent, you'll conduct deep, thorough and detailed due diligence.

Your primary focus should be on the value proposition of both the targeted practice and the combined entity. In addition, examine all financial records and all filings with regulatory agencies. This is your opportunity to verify whether what was represented to you is true. You also want to uncover any skeletons in the closet-anything that could make the deal less desirable, such as litigation, a problem with a partner or an administrative error.

Step 6: Determine valuation, negotiate and set terms. Look at what you know about creating value in your own practice. It's a good scorecard. Start with the target's stand-alone value, then add the gains from synergy when the two practices are combined and subtract the costs of the acquisition. The ideal range-where no value is destroyed for either seller or buyer-is between 100% and 140% of the target's stand-alone value. Once you've determined valuation, you and the target will negotiate deal terms. You'll also present a formal proposal outlining how you would execute the acquisition. This proposal should lead to an open discussion about whether enough synergy exists to make the deal work. Finally, you and the candidate will sign a letter of intent-a binding document that specifically identifies all the major terms of the purchase agreement and typically includes the purchase price, any earn-out provision, noncompete agreements, employment agreements and so on.

Step 7: Perform confirmatory due diligence and close the transaction. Clearly define every player's role in the negotiations to ensure a smooth closing. Also, obtain complete, accurate documentation. At this stage, advisors often bring in a professional who is experienced in mergers and acquisitions. While that's generally smart, don't give the professional complete authority. Professionals often spend inordinate amounts of time negotiating minutiae, which will add substantial costs and could delay or possibly even kill the deal. So stay involved and push to move the agreement to completion.

Step 8: Integrate the companies. It is critical for the new entity to experience a number of early wins, so begin integration during your earliest discussions. This will prepare you to execute full integration formally after announcing the acquisition. You'll need to communicate core messages that emphasize the business case for change to stakeholders and set up compensation so it's linked to quantifiable objectives. Above all, stay committed. It can take a long time to integrate two practices and cultures. Don't lose steam when challenges arise.

Clearly, pursuing an acquisition-based growth strategy is a big step. But for advisors who are starting from a position of strength and are really looking to ramp up their operations, an acquisition can catapult a business to a hugely higher level of success.

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.

Daniel Seivert
Managing Director
dseivert@echelon-group.com

Tyler Resh
Principal
tresh@echelon-group.com