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NEWS RELEASE

ARE YOU LOOKING TO SELL YOUR FIRM? HERE'S WHAT ACQUIRING MINDS SEEK

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A growing number of financial advisers will put their firms on the market in the next few years as they plan for retirement, but most aren't doing much to earn top dollar for their businesses when they do sell, industry observers say.

Many advisers have a tendency to coast toward the end of their careers, letting their firms diminish in value and possibly even shortchanging their clients, they contend.

"Sellers, for the most part, fail to plan," costing them money when the time comes to retire, said David Grau Sr., chief executive of FP Transitions, an investment bank that brokers advisory sales and consults on succession planning.

According to Matt Matrisian, senior vice president of practice management at Genworth Financial Wealth Management, only about the top 25% of advisers with whom he works regularly benchmark their businesses against industry averages or segment their client bases to look for areas that they can improve.

Most get "complacent," which brokers and buyers say make the firms less attractive, he said.

But the good news is that advisers have a solid shot at standing out from the competition if they pay attention to, and take to heart, key drivers of value for the firms.

Here are eight changes that experts said buyers would like you to make.

1. Make yourself dispensable.

Reduce your business's dependency on you by developing talent within your firm.

"A buyer is looking for an interdependent practice where the role of the adviser is important, but it is not a star system where the current owner is [critical] to retaining the client base," said Brian Church, national sales director for Capital L Group LLC. The asset management holding company has acquired nearly \$1.5 billion in assets under management in the past two years, primarily through buying smaller registered investment advisers.

Building an interdependent practice typically means that the owner needs to develop a partnership with another adviser, merge with another firm or recruit a successor, said Mark Tibergien, chief executive of Pershing Advisor Solutions LLC.

"Solo practitioners find it almost impossible to reduce that dependency," he said.

2. Develop a growth engine.

Counteract the natural tendency to stagnate in the five or so years before retirement with new marketing programs, seminars or relationships with influential organizations or individuals. Become known for something such as a particular expertise or a distinctive market that you serve.

"Advisers' production begins to decline as early as 50. [For the next] 10 to 20 years, these advisers' practices actually begin to contract and, on the adviser's retirement, death or disability, disintegrate completely," Mr. Grau said.

If growth is a thing of the past in your firm, "it is hard to say that is worth paying for," Mr. Tibergien said.

For earnings before income tax, depreciation and amortization expenses, advisers should strive for a compound annual growth rate in excess of 25%, according to investment banker **Daniel B. Seivert**, chief executive of **Echelon Partners LLC**.

3. Lose unprofitable clients.

Buyers are turned off by a long list of clients that require service but won't generate new revenue.

"If most of your clients are in [the] withdrawal phase, potential buyers will look at that and say, 'I will have to service but it won't grow,'" Mr. Tibergien said.

He suggests moving unprofitable clients out of the firm.

As wealth manager Lenox Advisors Inc. became more successful, the firm raised its minimum-asset level for clients, and partner Thomas J. Henske said that he occasionally had to have "an uncomfortable conversation" with a client who fell below the new minimum.

4. Check your fees against the market.

Many advisers have been reluctant to raise prices on clients whose investments took a beating over the past couple of years, Mr. Tibergien said.

Recent research by software provider PriceMetrix Inc. showed that many advisers are undercharging, but those who charge the lowest prices aren't winning more business. The company suggests asking your back office for information on average fees.

5. Think fee-only.

Fee-based assets are generally two to three times more attractive than commission-based assets to a prospective buyer, Mr. Church said.

Mark P. Hurley, president and chief executive of the Fiduciary Network LLC, which invests in wealth managers, said that fee-based assets are even more valuable than that. Advisory firms that operate on a fee-only basis are "infinitely more valuable" than commission-based or hybrid firms, he said.

To attract buyers, "advisers need to convert their clients to fee-based as much as possible," Mr. Church said.

6. Build scale.

If a firm grows enough, it graduates from a mere list of clients to an active business, Mr. Hurley said.

He attracted criticism recently when he said that the smallest RIA firms, which typically manage \$50 million or so in assets, don't have enterprise value, the ability to produce sustainable profits.

"They are really just books of business," Mr. Hurley said, adding that a sale would probably bring a percentage of the book's revenue for a few years or a similar type of deal. He said that firms with about \$1.5 million to \$2 million in annual fee revenue "have the potential to build substantial enterprise value on a stand-alone basis and will command a better price."

One way that some firms get bigger faster is to buy a book of business from a solo practitioner. RIAs that are looking to build scale "are increasingly interested in doing deals with each other," said Dan Inveen, principal and director of research at FA Insight, a consulting firm.

7. Concentrate on building up large accounts.

"Generally speaking, a book of business with the same gross revenue that has 100 clients versus 500 clients is going to be more attractive to a buyer," Mr. Church said.

A smaller number of large clients allows for higher net margins. Just as important, it means a larger component of accredited investors who are eligible for products such as hedge funds that smaller investors are not.

That advice is good as far as it goes, but having one or two very large clients in a firm at which the average account value is much lower could end up being a negative because the clients likely will need different services, which will be more costly to provide on a one-off basis, Mr. Hurley said.

8. Be a lean business.

"It is better to be lean and efficient [without cutting service] than to be robust and expensive," Mr. Church said.

Gross revenue is usually the metric by which Mr. Church values firms managing less than \$250 million in assets. However, he said, "a case could be made to go with a net-revenue valuation that could be upwards of 10 [times] if the business can achieve greater than 30% profit margins."

Most advisers spend only a year or two prepping for a sale, which isn't enough time for some value drivers, such as increasing scale, and average client assets and fee size, but even in a two-year time frame, they can make a substantial change in growth and profitability, Mr. Seivert said.

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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