RAYMOND JAMES

# Acquisition Strategies

Given the aging advisor demographic, acquisition opportunities are top of mind for many interested buyers. As an advisor looking to grow their practice through an acquisition, our department can equip you with the **STRATEGY** to increase your chances of getting noticed by a seller in a highly competitive market. Below outlines how you can leverage our expertise to proactively position yourself not only as an interested buyer, but also as a qualified successor.

So how does one become a "qualified successor"?
It starts with STRATEGY.

## S ▸ STABILIZE

You can't plan to bring on another practice if you don't have a plan for your own. The first step is to make sure your own practice is stable and can be scaled for a sudden influx of clients. Stabilizing features include:

- Having an up-to-date catastrophic plan
- Creating an actionable business plan
- Segmenting your client base
- Following a client service model

## T ▸ TARGET

Carefully consider the practice you want to have in the future, including your objectives for what you want to achieve. This will help you target practices that will help meet your goals.

Questions to ask yourself:

- What type of practice would fit my current practice's culture, style and approach?
- What size in numbers of clients and AUM, T-12, etc., could I reasonably fit into my current structure?
- If I acquire a practice, should I diversify my client service and investment approach to match that of a seller or leverage my existing approach?
- How should I focus my search geographically?
- How much can I afford to pay? What financing methods are available to me?
- How would I like to structure the deal?
- Is my pricing structure consistent with the other practice's pricing structure?

## R ▸ RED FLAGS

You should have a list of "red flags" that signal the practice you are considering to acquire won't help you meet your criteria. Develop a list of "deal breakers" when meeting with prospective sellers (such as common ones listed below) to help you avoid the time and energy of pursuing an acquisition that isn't the right fit:

- Seller is looking for an unrealistic price
- If the practice has more than one partner, consider whether they are all on the same page regarding the sale
- Seller has a history of regulatory compliance problems (you can visit brokercheck.finra.org)
- Seller has personal financial problems
- Seller's client records are incomplete or inconsistent from client to client

## A ▸ ADVERTISE

Marketing is about knowing your audience, so market yourself from the seller's perspective. If you were a seller, what would you want to know about a prospective successor? Consider the following:

- A successor with a similar client philosophy is usually high on a seller's list, since client retention is the key to any successful transition.
- Approach the subject in a respectful way. The seller is selling his/her life's work, it is a big deal to find the right successor. Exiting the business is a very personal and difficult decision. Patience is imperative – until sellers start the process, many may not realize the psychological impact of retiring.
- Even when engaging in a proactive, targeted search, finding the right seller can take months and perhaps several years. There are many ways to spread the word that you are open to acquiring the right practice. These include:
  - LinkedIn and other social networking websites
  - Your Branch or Region / Division Manager to see if they know of a potential internal or external matches
  - Industry/firm conferences and events
  - Community/charitable events attended by financial advisors from other firms

## T ▸ TEST THE WATER

Once you find someone willing to sit down and discuss the possibility of selling their practice, remember that an initial meeting is just that – an initial meeting. Do not rush into discussing specific value, price or deal terms. Neither of you know at this point whether you want to partner with the other during the initial meeting, even if you've known each other for years. Be patient and follow their lead.

After all, would you float the prospect of marriage on the first date? Or, to put it into an advisor's scenario, would you presume to accept a new client and develop a full financial plan after one brief, general discussion? Of course not. The same premise applies here. The initial meeting is at most a discovery discussion, but should primarily serve as an opportunity to:

- Ask open-ended questions about the practice, clients and investment philosophy.
- Communicate your investment methodology and client service strategy, as well as any planning services you provide.
- How you envision the seller's practice fitting into this strategy.
- Whether you should continue down the acquisition path through another meeting or part ways.
- Express why you might be the best fit for their clients.

## E ▸ EVALUATE THE OPPORTUNITY

Think of the due diligence process with the seller in the same manner you would when engaging a new client: start generally and conduct a deeper dive during subsequent meetings. The downside of an acquisition is that you do not get to hand-pick your clients. That's why it's important to carefully review the seller's practice by examining the following:

| POTENTIAL RISKS | ITEMS TO CONSIDER |
|---|---|
| **Market** | Future market fluctuations, Future interest (borrowing) rates |
| **Business** | Age of clients, Average client size, Size of book, Share of wallet, Asset attrition vs. retention, Asset appreciation vs. depreciation, Fee-based vs. transactional |
| **Operational** | Team planning, Transition timeline, Compliance regulations, Technology restrictions |
| **Personal** | Retirement date, Cash flow needs, Impact on benefits, Outstanding balances, Tax implications |

## G ▸ GO VS. NO-GO

Once you have concluded the evaluation process, it's time to make a go vs. no-go decision. Both parties should make the decision to either move forward or halt the acquisition process. You can facilitate this process by working with the Succession & Acquisition Consulting Group to develop a written business continuity plan or a succession agreement. While not a legally binding document, the intent holds each party accountable to the expectations and timeline for the deal. It can be simple, but be sure to include enough detail so both parties have the opportunity to clear up any confusion about expectations. The agreement should address:

- An integration plan
- Timeline
- Responsibilities
- Pre and post-sale compensation framework

## Y ▸ YIELD

A buyer and seller naturally have opposite motives when it comes to pricing a practice. While sellers have a lot of bargaining power given the market demand, the terms of the offer are what ultimately determine what price is paid.

It's important for all to understand these scenarios when negotiating an acquisition:

- A 100% guaranteed purchase price places the risk entirely on the buyer
    - For this reason, a discount should be considered to accommodate the additional risk
- A 100% contingent purchase price places more risk on the seller's hands.
    - For this reason, a premium should be considered to accommodate the additional risk taken on by the seller
- A partially guaranteed, partially contingent purchase price places the risk on the buyer and seller. This deal structure can appeal to some but not all – it's important to consider fit with your successor, your liquidity needs, affinity towards risk, tax implications, and perspective on the market before choosing any deal structure.

It is critical to understand your options as they relate to deal structure.

## CONCLUSION

Now that you have familiarized yourself with the acquisition **STRATEGY**, you are well on your way to becoming a qualified successor if you proceed with your plan of action. If you are patient, understand your options, perform thorough due diligence and get it right, you may be able to replicate your success periodically as an effective means to grow your practice. You have a dedicated team to support your acquisition endeavors, so feel free to reach out to the Succession & Acquisition Consulting Group.

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