



MERGERS FAQ

Q: WHAT EXACTLY IS A MERGER?

A: Legally, a merger is a statutory combination of two or more companies into one, usually with most of the principals and staff joining together post-merger, combining their respective strengths and eliminating or reducing pre-merger weaknesses or inefficiencies. Practically, a merger can take many forms and solve a wide variety of problems. The goal of a merger is commonly expressed by the simple equation: $1 + 1 = 3$, implying the benefits of synergy.

Q: WHY SHOULD ADVISORS CONSIDER MERGING?

A: A merger is a powerful business building tool. It allows, for example, smaller practices to come together in a formal, legal manner, usually on a tax-free basis. Mergers can take the form of two equally sized practices that want to quickly grow larger and add efficiencies. Mergers can also occur between a larger and a smaller practice and, if involving an older advisor and a younger advisor, provide solutions to continuity and succession planning that otherwise might not be possible. A group of three or four sole practitioners can also use a merger strategy to come together and form one larger, sustainable business.

Q: HOW IS A MERGER DIFFERENT FROM AN ACQUISITION?

A: An acquisition usually removes the selling owner from the ongoing business model after a six to twelve-month post-closing transition period. In an acquisition, the seller often desires to “cash out.” In a merger, technically there is no seller, at least in an immediate sense. Two or more owners come together to work together in a synergistic fashion. Compared to an acquisition, mergers may also provide superior and more practical tax benefits to existing owners who aren’t ready to cash out. Mergers are also a commonly used tool to “onboard” an advisor who, for example, has built a book or a small practice and wants to join a larger firm, contributing his or her clients, assets and cash flow in exchange for an equity position on a tax-free basis.

Q: WHAT ARE THE DIFFERENT TYPES OF MERGERS TO CONSIDER?

A: There are several different types of mergers to consider. A “lateral merger” occurs when two or more books or practices come together that were not previously competitors. A “horizontal merger” occurs when the merged firms are in direct competition in the same markets or provide the same services, but now elect to join forces. A “vertical merger” occurs between a company and one of its suppliers or distribution channel partners. A “market-extension merger” happens when two businesses that sell the same services but in different markets come together.

Q: WHAT DOES A MERGER COST?

A: It depends. FP Transitions' merger team provides services on a flat-fee basis. Our preferred approach is to start with a quick-paced, low cost Assessment and Strategy Development step, which allows us to take the necessary time to carefully listen to everyone's goals, understand all the material facts, and then develop a detailed plan of action to create a successful, long-term merger. The Assessment step also allows us to more accurately quote a flat-fee cost to complete the merger process and provide a time estimate for completion, all a part of a written Plan Summary.

Q: WHAT IS INCLUDED IN FP TRANSITIONS' FLAT-FEE MERGER DESIGN AND EXECUTION PROGRAM?

A: Once the *Assessment and Strategy Development* step is completed by delivering a written plan, merger clients will understand the work that needs to be completed and what is included. In general, the merger plan will list the deliverables necessary to attain the stated goals, a flat-fee cost, and a timeline for completion. Most merger plans also include valuation work, documentation, legal support, tax considerations, spreadsheet and cash-flow analytics, reengineering the surviving entity's organic structures, and even compensation strategies or adjustments. Continuity planning (to protect against the loss of any shareholder) and succession planning may also be included if the parties desire.

Q: DO WE NEED FORMAL VALUATIONS TO COMPLETE THE MERGER PROCESS?

A: It is possible that formal valuations or even appraisals will be needed to accurately and properly complete the merger process. You might. Depending on the fact pattern, merger participants may or may not need a complete appraisal. About 60% of the time, our comprehensive value calculations are sufficiently accurate and appropriate for establishing an equity-value ratio to support the merger process, which can save money and time. However, certain tax considerations may compel the conduct of a formal appraisal.

Q: WHAT IF OUR MERGER TAKES LONGER AND IS HARDER THAN WE ANTICIPATE?

A: FP Transitions does not charge by the hour. We utilize a unique, non-advocacy, flat-fee approach to keep our clients in control and to make informed decisions along the way. Because we start the merger process with a careful assessment of the parties' plans, goals, and timeframe, we are generally capable of providing a fair and reasonable estimate of the costs and time to complete the entire process at the time of the initial engagement. Unless there is a significant or material change in the transaction, the initial fee should cover the engagement.

Q: CAN'T MY LAWYER HANDLE THE MERGER PROCESS AND PAPERWORK?

A: Possibly, if they are a specialist in this area and understand the intricacies of the highly regulated financial services and advisory profession, as well as cash flow and compensation elements

Lawyers are an important part of the merger process, which is why FP Transitions has five attorneys on staff. Our attorneys work on a non-advocacy basis serving the interests of the deal, and they coordinate their advice and documentation with our appraisers, analysts, compensation specialists, and consultants as a coordinated team working toward a common goal. We also welcome the opportunity to share our recommendations and documentation with local legal and tax counsel.

Q: HOW LONG DOES IT TAKE TO COMPLETE A MERGER?

A: Once all the decisions are made, completing the documentation is about a two month process. The due diligence process leading up to a merger can take additional time. If a merger can be thought of as a marriage of business partners, the due diligence period is the “dating” phase and can take months or years depending on the participants and the opportunity.

Q: I AM A SINGLE MEMBER S-CORPORATION. CAN I MERGE?

A: Yes. In most states, S-Corporations, C-Corporations and LLCs can all be merger partners. It is also possible for sole proprietorships to take advantage of the various merger strategies as well.

Q: I WANT TO STRENGTHEN AND GROW MY PRACTICE, BUT I DON'T WANT TO TAKE A PAY CUT IN THE PROCESS. CAN A MERGER WORK FOR ME?

A: A successful merger should be a win-win for all parties that continue to work in the new organization. The merger process can, and should, take into account compensation elements as well as equity interests. In successful mergers, operational efficiency is increased, succession and continuity options are improved, and growth rates stabilized and/or escalated. The general goal is to put the merger participants in a better position, post-merger, than they could ever achieve alone. A successful merger should be a win-win for all parties that continue to work in the new organization. The merger process can, and should, take into account compensation elements as well as equity interests. In successful mergers, operational efficiency is increased, succession and continuity options are improved, and growth rates stabilized and/or escalated. The general goal is to put the merger participants in a better position, post-merger, than they could ever achieve alone.

Q: DOES IT MATTER IF TWO FIRMS ARE VERY DIFFERENT PRE-MERGER?

A: It can. Cultural fit is very important to a successful merger. Mergers benefit from synergy. Complimentary differences are part of the process, but the parties will need to be able to work well together post-merger to figure out how to develop synergies and to meld their different skill sets to support a single, clear path forward for the business. Framing the goals and the steps it will take to execute the plan are an important part of why the merger process should start with a detailed assessment of the complete fact-pattern.

Q: WHO WILL BE IN CHARGE AFTER THE MERGER?

A: Control is an important decision that should be decided early in the process. Many mergers also progress through a complete succession plan as well to create clear expectations for the future in terms of hours worked, equity interests and changes to those interests, compensation levels, even titles and decision making authority.

Q: DO I NEED TO SET UP A NEW ENTITY?

A: If you are currently working through an entity, probably not. If you are operating as a sole proprietorship without an entity, you will need to establish an entity prior to a merger, or combine businesses through an acquisition strategy instead. All of these possibilities will be explored and explained with an FP Transitions' merger consultant and, if appropriate, executed by the FP Transitions' merger legal staff. The *Assessment and Strategy Development* step is designed to consider such issues and to create a clear plan going forward.

Q: HOW MANY MERGERS ARE ACTUALLY COMPLETED?

A: All of the mergers that should be completed – right around 85% of the companies that begin the process choose to complete the merger.

The other 15% are not necessarily failures; in most cases, the merger participants found some reason not to proceed, whether the result of a due diligence issue, an inability to successfully work through problems together, or just a change of mind after learning more about the likely post-merger company and compensation outcomes.

Q: HOW DO I LEARN MORE?

A: We can arrange for you to speak directly to one of our experienced merger consultants or a legal team member about your specific questions or concerns. In the meantime, read our white paper, *A Focus on the "M" in M&A*. You'll learn how the merger process can be a tool for growth and sustainability, and how a merger can greatly strengthen succession and continuity planning options.

FP Transitions is the nation's leading provider of equity management, valuation and succession planning services for the financial services industry. Based in Portland, Oregon, FP Transitions operates the largest open market for buying and selling financial service practices in the U.S.

Since opening its doors in 1999, FP Transitions has completed more financial service transactions than any investment banker or business-broker in the country. FP Transitions' expertise also includes continuity planning, practice benchmarking, compensation studies, entity formation, mergers and acquisitions, and equity compensation strategies.



4900 Meadows, Suite 300
Lake Oswego, OR 97035
p: 800.934.3303
f: 503.452.4205
www.fptransitions.com