FP TRANSITIONS®

EMS™

BUYER'S GUIDE

#FPINSIGHTS

EMS™ BUYER'S GUIDE

Mergers and Acquisitions (M&A) have become an integral component of every financial advisory firm's growth strategy. It enables them to expand market share, diversify offerings, access new technologies, find and retain talent, and achieve economies of scale. The Buyer's Guide is an Equity Management Solutions® exclusive resource., meant as a framework to discuss preparation for inorganic growth strategies with your EMS™ consultant. The guide will also help you better understand how to utilize the acquisition-related tools that are exclusively available with your membership.

These include:

- Acquisition Readiness Self-Assessment
- *One additional market-based valuation for acquisition purposes (within each 12-month membership period)
- *Continuity agreements for tethering future sellers to your firm
- *Mutual Non-Disclosure Agreement template
- *Non-Binding Letter of Intent sample and consulting support
- Financing introduction, guidance, and resources
- *Due Diligence Checklist
- Deal Structuring white papers
- *Deal Calculator
- *Post-Closing Transition Guide
- *Sample letters to clients
- *Employment Agreement - Licensed & Unlicensed samples
- Exclusive library of M&A white papers, webcasts, and more

The acquisition of financial advisory practices is a significant decision, the steps outlined in this guide will offer insights for maximizing value and minimizing risks in your M&A efforts.

**Available only with EMS™ Professional.*

STEP 1: PREPARATION

Understanding the Objectives: Before embarking on the acquisition journey, it's essential to clearly define your strategic objectives. Whether the goal is to enter new markets, gain access to proprietary technology, or eliminate competition, understanding the purpose of the acquisition will guide your decision-making throughout the process. Key stakeholders should align on these objectives to ensure coherence and focus during preparation. **What are your objectives?**

Integration Planning: Integration planning should commence early in the preparation phase to ensure a seamless transition post-acquisition. This involves developing a detailed integration roadmap that addresses key functional areas such as finance, operations, human resources, IT, and sales. Assigning dedicated integration teams, establishing clear timelines, and fostering cross-functional collaboration are essential for executing the integration plan effectively. **What does your integration roadmap look like?**

Financial Due Diligence: Conducting thorough due diligence is paramount in assessing your target company's financial health and identifying potential risks and opportunities. This involves examining financial statements, cash flow projections, debt obligations, and contingent liabilities. Additionally, it's essential to evaluate your target's revenue streams, customer base, and market positioning to assess its growth potential, revenue synergies, and potential impacts on your current financial situation. **Have you prepared a list of must have Due Diligence information your firm will need to evaluate a potential seller?**

Operational Assessment: Beyond financial metrics, a comprehensive operational assessment is necessary to evaluate your target company's operational efficiency, scalability, and infrastructure. This includes analyzing production processes, supply chain management, technology systems, and human resources. Identifying operational synergies and potential integration challenges early in the process enables proactive planning and risk mitigation strategies. **How aligned are your target's operations with your own? What adjustments would need to be made post-transition? Are there elements that could improve what your current operations?"**

Legal and Regulatory Compliance: Ensuring compliance with legal and regulatory requirements is critical to mitigating legal risks and liabilities associated with the acquisition. Legal due diligence should encompass a review of contracts, licenses, intellectual property rights, litigation history, and regulatory filings. Understanding the legal landscape enables the acquirer to assess potential legal exposures and devise strategies for minimizing risks and maximizing value. **Did you discover any potential red flags or undisclosed issues?**

Cultural Alignment: Cultural alignment is often overlooked, but crucial for the success of post-acquisition integration. Assessing cultural compatibility between the acquiring and target companies helps you anticipate challenges related to organizational structure, communication styles, leadership, and employee morale. Building a shared vision and fostering open communication with your transaction partner can facilitate smoother integration and mitigate cultural clashes. **How does the seller align with your acquisition priorities?**

Communication and Stakeholder Management: Transparent communication and stakeholder management are critical throughout the acquisition process. Proactively communicating with employees, customers, suppliers, and investors helps manage expectations, alleviate concerns, and maintain trust. Establishing a communication strategy that provides regular updates and addresses potential uncertainties can minimize disruptions and facilitate a smoother transition. **What is your communication strategy? Who will you communicate your plans with, and at what stage?**

MEMBERSHIP HIGHLIGHT

The success of any acquisition largely depends on the depth of preparation that the buyer takes when entertaining M&A activity. Preparation involves assessing the reasons for acquisition, establishing a strategy for acquisition efforts, identifying potential target companies, articulating potential synergies, addressing potential challenges, and developing a strategic plan for integration. Test your Acquisition Readiness.

STEP 2: PROCESS

Finding Potential Sellers: Finding a suitable match is the key to completing a successful transaction and will lead to greater client retention and profitability after the sale. When developing your strategy for finding potential sellers you must consider all available avenues by which you may meet and engage with targets. The most common places to find potential sellers are through industry publications, advisor databases, online marketplaces, or by networking within the financial advisory community.

Common networking sources include:
- Broker Dealer
- Custodian
- Industry organizations
- Study groups
- Conferences
- Mutual fund wholesalers

What are some professional groups or organizations where you could network with potential sellers?

Open markets include the [FP Transitions M&A Marketplace] and other M&A marketplaces or organizations that market businesses for sale.

Common open markets include:
- FP Transitions
- Broker Dealer M&A platforms
- Custodial M&A Platforms
- Web Based Bulletin Boards
- Other Business Brokers

MEMBERSHIP HIGHLIGHT

As part of your Equity Management Solutions® membership, you will automatically receive email notification in advance of the general publication of any FP Transitions M&A opportunities. Additionally, since you are also completing your annual valuation data as part of your annual membership, we have a much better picture of the potential fit for your firm to any potential sellers' needs and desires. Depending on your membership level, your EMS consultant will reach out to you directly with a call or email on any opportunity for which your firm represents a significant match and will advise that you submit an inquiry.

Evaluating Opportunities: Assess the financial health, client base, reputation, location, and operations of each practice you're considering is important to the successful matching of potential partners. Prioritizing "fit" with a potential acquisition target will help you focus your search and select targets that present the best possible opportunities for integration and synergies for all parties. Focusing on understanding the seller's position, needs, and wants in a potential transaction can assist you in being more focused in your solicitation efforts, allowing you to deliver a message on why you best meet their needs as a potential partner. **What are the top 3-5 aspects your target firm should include?**

Consider the Seller's Perspective: Aggressive solicitations, often used by the large acquiring firms, are often either ignored, or worse, could damage your potential for future conversations. Sharing too much information about your business, or "hard selling" how great your firm is, can often close more doors than it will open. Ultimately, the potential seller wants to be confident that they are leaving their clients in the hands of the best possible partner (after themselves of course).

The primary challenge to finding sellers is that most advisors do not identify as such until the very moment they make the decision to sell their business. In fact, prior to that point most will admittedly consider themselves to be a competing buyer rather than a willing seller. Finally, buyers who quibble over the value of the business often never make it to the finish line. We're not suggesting that you overpay for any business, but a prepared seller will know what their business is worth, and lowballing an initial offer does not bode well for moving the process forward.

Consider the sellers perspective and be prepared to answer questions like:

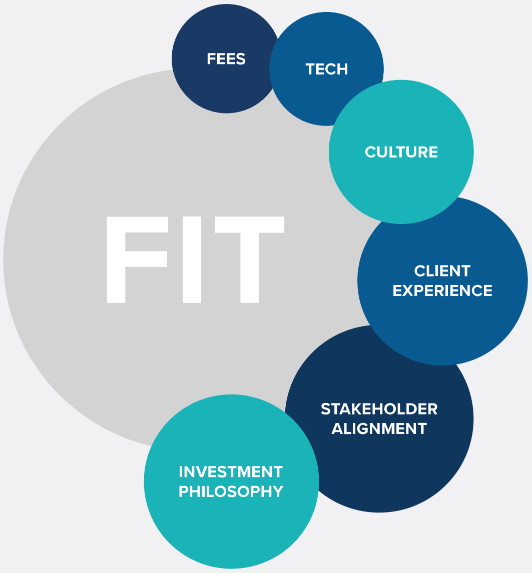
- *What types of clients do you service?*
- *How did you acquire your existing clients?*
- *What are their long-term needs?*
- *How do you typically interact with your existing clients?*
- *What is your office space like?*
- *Do you have excess capacity to manage the additional clients from the purchase?*
- *What does your financial picture look like and do you have the financial capability to acquire the business?*
- *What's your plan to protect the clients and their assets if something happens to you?*

MEMBERSHIP HIGHLIGHT

If you wish to take the value debate off the table, or you wish to set the value of the business at the current market rate, you can utilize the additional market-based valuation included with your membership to asssess the financial health for acquisition purposes to assess the financial health of the potential acquisition target.

FINDING THE PERFECT FIT IS PARAMOUNT

While selling price plays a significant role in M&A transactions, it has much more to do with the merging or acquiring entity's vision and proposed deal terms. After reading through tens of thousands of inbound inquiries and supporting over 2,000 M&A transactions, we've picked up on a few resounding themes. Check our our expert insights on top M&A criteria in our **Six Elements of a Perfect Fit** eBook.



MEMBERSHIP HIGHLIGHT

Utilize your own valuation and benchmarking data to better understand if you are a good fit for your potential acquisition, and to help you communicate your value proposition as THE best partner firm.

Articulate Your Value Proposition: The ability to clearly and concisely articulate your value proposition to a seller during the inquiry process will allow them to easily assess whether your firm meets their priorities. **Start with a few sentences to articulate the value proposition of your firm to a potential seller or merger partner?**

MEMBERSHIP HIGHLIGHT

Connect with your EMS™ Consultant to set up a time to review your strategy, value proposition, and any current deals you may be working on.

MEMBERSHIP HIGHLIGHT

As an EMS™ member, your consultant can assist you with writing a term sheet (letter of intent) to facilitate the negotiation. Since deal structures are continually evolving, EMS provides white papers, template documents, and consulting to keep you up to date on what the current market environment looks like. A review of your most current valuation report will also provide insights on the current common deal structures and tax treatment in the industry.

Deal Structuring and Financing: Once you've identified a practice you're interested in, and found agreement on "fit," then it is time to start negotiating the terms of the sale. This includes the purchase price, payment structure, covenants, tax treatment, and other conditions of the sale. Additionally, this includes determining how you will finance the purchase and could involve using your own funds, securing a loan, or seeking investment from partners or outside investors.

Understanding the current marketplace for deal structures and what most sellers are currently expecting will assist you in putting your best foot forward when you provide a final term sheet or letter of intent. An example of an inexperienced buyer strategy is trying to limit buyer risk by offering a deal funded via revenue split. This results in favorable terms for the buyer, as they need only pay for the business they keep and have no tax on the payments made to the seller. For the seller, however, this is the worst deal—their realized value relies on the skill and effort of the buyer, not on the goodwill they built over their career, and the entire sale may be taxed as ordinary income rates.

In general, there are many ways to structure a deal successfully and with positive results for both the buyer and seller, but be prepared to offer some degree of down payment. Some sellers will agree to as little as 10% down, but most deals rely on one-third to one-half of the purchase price being paid up front. Bank financing has had a big effect on the acquisition marketplace, but not all deals require a bank's involvement. If you're interested in bank financing, be prepared for a somewhat longer purchase process—bank-financed deals require more complexity and paperwork, but can be well worth it for the extra leverage they can provide on your acquisition. The worksheet at the back of this book will help you consider your down payment and financing capacity.

Cash available for down payment should be 30-40% of your target acquisition value. If you do not have sufficient resources available, consider revising your target acquisition value, or ask FP Transitions to introduce you to some of our financing partners.

List your current financing resources:

MEMBERSHIP HIGHLIGHT

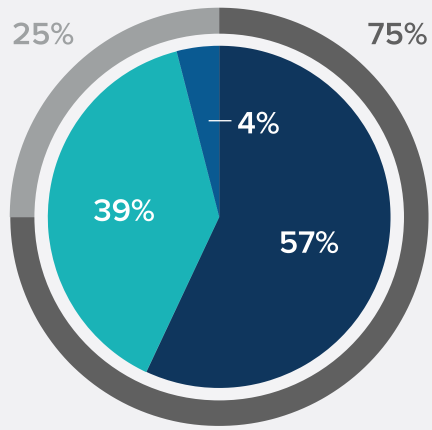
Our Deal Structuring white paper addresses two of the most common M&A pitfalls: uniform treatment of targets and confusion between exit planning and succession. It guides advisors in tailored strategies for sales or acquisitions, emphasizing nuances for external or internal buyers. Additionally, it highlights succession planning differences and essential considerations in exploring exit strategies.

BANK FINANCED DEAL

- Seller Note
- Bank Financing

TRADITIONAL SELLER FINANCED DEAL

- Down Payment
- Earn Out
- Seller Note



Perform Due Diligence: Once you have agreed upon a deal structure with your potential seller, you should be prepared to conduct a thorough review of the practice's financial records, client contracts, compliance procedures, and any potential legal liabilities. You may also want to assess the skills and experience of the existing staff that you intend to keep and any current owners that may want to extend their employment post transaction. Typically, the due diligence phase is conducted during the 6 to 10 weeks that are required for drafting contracts and often include onsite visitation. Understand that both buyer and seller should be preforming their due diligence at this stage. Also, be cautious of any issues that may arise. During a 30-to-40-year career there will be potential due diligence concerns and even small issues can be blown out of proportion if not approached openly but cautiously. **Do you have a list of due diligence questions for the seller?**

MEMBERSHIP HIGHLIGHT

EMS™ members have access to the Due Diligence Checklist which provides a common set of items that both buyer and seller should be considering when preforming their due diligence.

Finalize the Purchase Agreement: Work with contract professionals to draft a purchase agreement that outlines the terms of the sale, including any warranties or indemnities provided by the seller. FP Transitions' extensive experience and unique, non-advocacy approach can help you successfully complete your own deal. Talk to your EMS consultant about our legal consulting and drafting services.

FP Transitions Transaction Support Benefits:

- A non-advocacy approach that serves the interest of the deal
- Dedicated legal consultant
- Industry specific contracts customized to fit your transaction
- LOI negotiation consulting & drafting
- Up to 3 sets of document revisions based on comments from review with both parties, personal attorneys and CPAs
- NDA guidance
- Deal Calculator
- Expert guidance on deal price, structuring, terms, taxation, timeline & financing options
- Closing and transition resources and guidance

Transition and Integration: Develop a plan for integrating the acquired practice into your existing business. This may involve transitioning clients, merging systems and processes, technology, billing process, and retaining key employees. It should consider things like when closing will to occur, how will pre- or post-closing revenues be handled, what documentation will be needed for clients to sign, how will transfer documentation be prepared and delivered, client communications, and any legal or compliance notifications that might be needed. Performance monitoring should also be a part of your transition plan to ensure the performance of the acquired practice meets your expectations and integrates successfully with your business during and post-transition. Having a well-documented transition plan prior to acquisition efforts is advisable. **What are the key points of your integration and transition plan?**

MEMBERSHIP HIGHLIGHT

EMS™ members have access to the Post-Closing Transition Guide which provides a good starting point for your team's efforts in developing a Transition and Integration plan.

Notify Clients: At the right time in your transition process, the final step will be developing and delivering notice to the clients that the transaction has occurred. You want to communicate with clients of the acquired practice to inform them of the change in ownership and reassure them about the continuity of service. You should ensure that the communication clearly states what is happening in the transaction and that any expectations that are set in the communications are in line with the actions that occur after the transition has taken place. **What are the key points you'd like to convey to your clients about the transition?**

MEMBERSHIP HIGHLIGHT

EMS™ members have access to sample Client Letters that will provide you a starting point for the development of your own personalized notifications.

NOTES

FP TRANSITIONS OPEN MARKET

FP Transitions offers buyers and sellers a fully supported platform to find the best possible match for their business. We get to know each of our sellers and take the time to understand the criteria and qualifications they need and want in a potential buyer. When the seller is ready, our Transactions Team follows a customized marketing plan, reaching out to our subscribed membership to cultivate a circle of qualified buyers. As the buyers' inquiries come in, we protect the seller's confidentiality and help limit disruptions to their daily business, which keeps the seller in control and preserves client confidence leading up to the sale. For most of our sellers, their business is more than their most valuable asset: it's their pet project, their seat in the community—their baby. To stand out as a buyer, submit an inquiry that speaks to their unique needs and requirements for a potential buyer. Be sure to highlight parallels between the seller's preferences and your approach to business. Avoid attempting a "hard sell" portraying your business as the best practice available. Buying on the Open Market is competitive, with a 50 to 1 buyer to seller ratio. While you pursue acquisition opportunities, contact your EMS consultant and when appropriate they will have you speak with our M&A team directly. The consulting relationship will help us better understand what you are looking for in an acquisition target. Additionally, completing a valuation for your own business lets us know if you are a match for a potential seller based on your practice information and their criteria. Remember, that buying a financial advisory practice is a significant investment, so it's essential to do your homework, seek professional advice when needed, and remember that FP Transitions and your EMS consultant are here to assist you in your efforts.

M&A PROCESS

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