



ACQUISITION WRAP UP A SELLER'S QUEST TO FIND THE PERFECT BUYER

In the acquisition marketplace, the impression you create can make or break your success. The market is competitive, the industry is tightly regulated, and decisions can be made based on intangible matching criteria and gut feeling. This is the real story of three buyers, and how their various approaches to the transaction ultimately led one to the winner's circle. All names have been changed for the privacy of our clients.

DECIDING TO SELL

In 2011, Linda approached FP Transitions to value her business. While she had discussed selling the firm at that time, she continued to work with FP Transitions for four more years before committing to selling the business. Once she had decided to sell, the first step was an updated valuation. Linda's business generated just over \$250,000 in trailing 12 months revenue on 94% recurring basis. Her valuation came in at \$490,000 based on average deal terms (30% down payment, 70% on a 5 year promissory note with a 12-month lookback adjustment mechanism) with a range up to \$549,000. Linda reviewed the valuation with her FP Transitions' consultant and considered the practice against the comparable transactions in our marketplace data. While our valuation takes into consideration important variables like the practice's location and client tenure, Linda's practice was in a major east coast city with a loyal, low maintenance client base. She asked our Listings Director, Jeanie, if a higher price would be attainable. Based on the specifics of the practice, Jeanie suggested that Linda could list above the average valuation, but that she remain prepared to adjust during negotiations, if necessary. Linda agreed, and the business went to market at \$515,000.

NARROWING THE FIELD

The marketplace was swift and strong to respond. Within one week, the business had 142 buyer inquiries. With careful review and a focus on Linda's criteria (eg. CFP designation, appropriate financing ability) the pool was narrowed down to five initial candidates. Linda decided to have a phone interview with each of the initial five, and afterward continued negotiations with her top three prospects: Katherine, Ian, and Calvin. A list of back-ups was also created.

BUYER PROFILES

KATHERINE was an experienced buyer and a strong match for the seller, but was with a different broker-dealer. She was member of FP Transitions' Equity Management System and had successfully acquired in the past. She understood the negotiating process and had the capital to finance the purchase and the capacity to serve the acquired clients.

IAN had no previous acquisition success, but had negotiated and written offers, and had educated himself on the buying process. He was with a different broker dealer, but was nonetheless a good match for the clients and had the resources to finance and support the transition.

CALVIN had no previous experience with acquisitions but was with the same broker-dealer as Linda. Linda and Calvin had met previously and had discussed a closer relationship, but Linda was not certain he was the right fit for the business. Linda had selected the FP Transitions team as her intermediary to make sure she selected the best buyer for the business and the clients, and she required Calvin to participate through our system as well.



The first round of offers came in at the asking price, validating Linda’s instinct to list the practice above the valuation. Katherine, experienced as she was, offered the most competitive terms out of the gate, and Ian also met the listed terms. The offers came in as follows:

	PRICE	DOWN PAYMENT	NOTE LENGTH
KATHERINE	\$515,000	40%	3 YEARS
IAN	\$515,000	30%	3 YEARS
CALVIN	\$515,000	25%	5 YEARS

Without disclosing any price details, the FP Transitions’ listing consultant notified all three buyers that three offers had been submitted. With this information, each buyer was given the chance to revise their offer and be more competitive. The second round of offers returned as follows:

	PRICE	DOWN PAYMENT	NOTE LENGTH
KATHERINE	\$535,000	40%	3 YEARS
IAN	\$540,000	30%	3 YEARS
CALVIN	\$515,000	25%	5 YEARS

Ultimately, received business value is tied not only to the purchase price, but how that price is paid and over what time period. The typical transaction also includes an adjustment mechanism to account for attrition or market correction. Because of this, and other personal criteria, sellers often select their buyer based not on deal terms, but on the match for their clients and their business. In this situation, Calvin offered the most conservative terms and the least flexibility, but the seller appreciated the benefits of keeping the business with the same broker-dealer and so pursued Calvin.

MEETING THE PROSPECTS

FP Transitions’ intermediary coordinated the next step in the negotiation so Calvin and Linda could discuss the financing terms. During the call, problems arose. Calvin had coordinated with his local bank, which did not understand the particulars of how a highly-regulated business based on intangible client relationships was purchased. Further, the entire down payment would be bank-financed, so Linda would need to agree to take a subordinate note for the remaining 75%. This means the bank is assured their payment before the seller, and shifts more financial risk to the seller’s side of the transaction. Since Linda would be assuming more risk in this deal structure, our consultant suggested Calvin offer a larger down payment in order to share the risk more evenly. He declined.

At this point, Linda reconsidered Katherine and Ian, with whom she had yet to meet. Each had submitted a more attractive offer for the business, but by this time, Linda admitted to feeling pressured by home office to deal with Calvin. To be sure, she was concerned about attrition if she sold outside her broker-dealer—a risk Calvin had emphasized in their negotiations. Linda asked her FP consultant, who informed her that intra-broker-dealer sales can be successful—if the match is strong and the transition is executed smoothly. At her request, in-person meetings with Katherine and Ian were arranged.

“Sellers often select their buyer based not on deal terms, but on the match for their clients and their business.”

On a trip to Katherine’s office, Linda ran into a snag. Katherine had just moved offices, but had not mentioned that fact to Linda. The signage had not yet been updated, and ultimately one of Katherine’s

staff members found Linda wandering the building and pointed her in the right direction. Linda was frustrated and worried that the clients would struggle in finding the office. It made for a less than great first impression.

Despite the snag at Katherine’s office visit, Linda was enthusiastic about the match from both prospects at the end of the meetings. Our consultant encouraged her to extend a counter offer only to the best fit. At this point, the offer from Calvin was still on the table. Linda knew both Katherine and Ian would be willing to increase their price, but also wanted to be fair to the final candidate. She decided to counter-offer to Ian at \$550,000.

FINAL ROUND

Ian was keen to move on this opportunity. As an educated inquirer, he knew to move fast. He obtained the cash to maximize his down payment and improve his terms. Calvin also coordinated with his team and revised his offer: he increased his down payment, but lowered his price and removed the personal guarantee on the promissory note. Calvin indicated that the broker-dealer gave him confidence that Linda would stay within the network and that the other buyers were not realistic. The final offers broke down as follows:

	PRICE	DOWN PAYMENT	NOTE LENGTH	ADJUSTMENT BASIS
IAN	\$550,000	50%	2 YEARS	85% RETENTION
CALVIN	\$490,000	30%	5 YEARS	90% RETENTION

In addition to a higher price and better terms, Ian also threw in additional benefits: he agreed to pay some of Linda’s fees during the consulting period, as well as provide a referral fee on new business during that time. Linda signed Ian’s offer. The parties opened escrow, drafted contracts, and closed the deal on December 30.

CONCLUSION

In this particular situation, Linda worked with FP Transitions to determine a list price and terms that she felt would be competitive and successful. Although it was above the FP Transitions valuation, it was within a feasible range, and our consultant prepared her to come down in negotiation if necessary. The volume of inquiries indicated that the price was reasonable, and the aggressiveness of the offers supported the anticipated interest in the business at that price. While Calvin had an initial advantage due to his broker-dealer affiliation, he overestimated the value of that relationship, which ultimately became a handicap to his acquisition effort. Proceeding under the misinformed assumption that the transaction could only be successful by remaining within the broker-dealer, Calvin presented a conservative offer and then countered with an even lower one. This sent a message of bad faith and created a situation where the other two buyers, who were also a strong match for the business (broker-dealer notwithstanding) could provide highly attractive offers. In addition to having sufficient resources on hand, these offers indicated their good will to make the transaction a success. While Linda initially pursued the buyer within her broker-dealer, she used the open market to ultimately select the buyer whom she determined to be the best fit for her business, her clients, and her financial future.

“Ultimately, received business value is tied not only to the purchase price, but how that price is paid, and over what time period. Average deal terms include 30% down payment, 70% financing over 4-6 years, and a 12-month look back to adjust the financed portion if 90% of the assets are not retained.”

TRANSACTION DETAILS

LISTED	October 13, 2015
CLOSED	December 30, 2015
TOTAL INQUIRIES	142
BUYERS ENGAGED	3
OFFERS RECEIVED	6 - one revision from each buyer

REQUESTED TERMS

\$515,000 • 30% down • 70% on Promissory Note

FINAL TERMS

\$550,000 • 50% down • 2-yr adjustable Promissory Note with adjustment subject to 85% retention plus referral agreement and additional perks

KEY TAKEAWAYS

The success of the transaction relies most significantly on the match between the buyer and seller, and their ability to work together as a team after the sale.

The negotiation is the perfect proxy for business style and personality. Buyers and sellers who have contentious negotiations are more likely to see troubles further down the road.

Professional match and good will are more important than the institutional relationship of the buyer or being the highest bid—but a competitive offer indicates the buyer respects the seller's investment in building the business.

Inexperienced buyers benefit from using a team that will give them sound advice. Make sure your consultants, whether from your financial institution or banking partner, understand the industry and the marketplace, and can guide you to execute a successful strategy that is suitable to your business and resources.

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