OPEN MARKET REDEMPTION FOR A CONFIDENT SELLER
A CASE STUDY

Every seller, and every buyer for that matter, wants a transaction that is situated for a smooth transition. Even when the fit between buyer and seller seems perfect, the deal is destined for failure if one or both parties are not completely committed to the transaction. The following is a true story of a seller who was left at the proverbial altar by a qualified buyer, but then found a perfect match using FP Transitions' open market system. All names have been changed to protect the privacy of our clients.

THE SELLER

HENRY
FOUNDER & OWNER

$1,000,000
REVENUE

$121,000,000
AUM

BELOW INDUSTRY AVERAGE
OPERATIONAL EXPENSES

LEFT AT THE ALTAR

Henry was the founder and owner of a very successful, incredibly efficient firm that generated over $1,000,000 in revenue from approximately $121,000,000 in assets under management, and boasted an operational expense structure well below the industry average. In late 2015, Henry felt a calling to pursue a different career path and decided to sell his firm and leave the industry. His personal queries into the buyer pool within his Broker-Dealer were initially successful, and Henry quickly found himself in negotiations with one of the Broker-Dealer's top producers. However, as the parties entered into due diligence, Henry began to question the authenticity of his suitor's intentions. After performing the initial stages of due diligence in Henry's office, the intra-broker-dealer buyers suddenly withdrew their offer and quickly ceased all communication with Henry, despite the fact that they could not name any specific item revealed in due diligence that would cause them to do so. Henry was furious, and suspected that these potential buyers were trying to covertly discover his operational procedures and model their business after his.

BACK IN THE RING

Frustrated from his recent experience, Henry turned to FP Transitions' open market listing service to find a serious buyer. Still jaded from the disingenuous offer from his previous suitors, Henry came to the table wanting a premium for his practice at very strong terms, which would make any half-interested buyer think twice before inquiring. Henry's initial terms were a purchase price of almost double his valuation range based on average deal terms (30% down, 70% on a promissory note). After talking with his FP Transitions listing consultant, he modified his asking terms to a purchase price of $2,500,000, a 17% decrease from his original asking price, with 75% down and seller carried note with a 12 month adjustment based on gross revenue. Henry also wanted any self-financed portion of the transaction paid in full within two years. Henry was warned that given his asking price and terms, he would be limiting his buyer pool severely. However, Henry heeded council received from his team of consultants at FP Transitions and decided to be open to a bank-financed down payment, which would keep his potential buyer pool from becoming too limited.

TO MARKET

Initially, the prediction made by Henry's FP Transitions consultant proved true: The market was slow to respond and while inquiries steadily trickled in, Henry was not immediately overwhelmed with responses. While the firms presented by FP Transitions met Henry's criteria in terms of financial wherewithal and size, Henry was very skeptical that any of the prospective buyers were confident enough in their buying prowess to meet his price and terms. After calling several firms, two finalists emerged, each an experienced buyer with strong financing propositions: Carl & Ryan.

Going to the open market can reduce the chances of wasting time with a disingenuous buyer and can increase the chance of finding the best fit.

THE PROSPECTS

Carl and his business partner had previous acquisition experience through FP Transitions. While their business model was a strong match for the seller, they were with a different Broker-Dealer. Carl's firm was over twice the size of Henry's. Carl also had a pre-approval letter from a reliable financing source and was a preferred buyer in FP Transitions' Equity Management System, which built his credibility and put Henry at ease. Carl's primary disadvantage was his location in proximity to Henry's main clientele, as his practice did not have an office located in Henry's geographical vicinity.

Ryan also had past acquisition success and was a very strong negotiator. Like Carl, Ryan's firm was over double the size of Henry's. Unlike Carl, he was headquartered in Henry's geographic region, a factor that was very appealing to Henry. While Ryan was a very confident buyer, he did not have a relationship with a funding source at the time of his introduction to Henry and had to establish that relationship in tandem with submitting an offer.

THE OFFERS

	PURCHASE PRICE	DOWN PAYMENT	NOTE	NOTE LENGTH	TERMS
CARL	$2,500,000	$1,875,000 (75%)	$625,000 (25%)	2 YEARS	Paid in one lump sum at 5% interest. Look back at 12 months with a 90% threshold on gross revenue and a 20% "floor" on the adjustment.
RYAN	$2,500,000	$1,875,000 (75%)	$625,000 (25%)	2 YEARS	Paid in one lump sum at 5% interest. Look back at 12 months with a 90% threshold on gross revenue.

A prepared buyer is a strong buyer. A prompt offer with proper financial backing is both impressive and reassuring in the eyes of a seller.

Carl's offer of a 20% "floor" on the adjustment mechanism minimized Henry's risk of losing sale proceeds to client attrition and was 10% lower than the industry average. In addition to the terms above, Carl's firm also offered Henry very favorable tax treatment on the sale, a consulting agreement tailored to meet Henry's shift in career, and Carl also offered to personally guarantee the seller financed portion of the transaction. Ryan's offer did not contain these components.

Initially, Ryan seemed to have an advantage, as he was in Henry's geographical area. However, Ryan had hesitated to write and submit an offer in a timely manner while Carl was quick to respond to the open market posting with an incredibly competitive offer.

Henry reviewed both offers, but because of Carl's prompt response and competitive terms, Henry chose Carl's offer. Because of Carl's past acquisition experience, he and Henry were able to quickly navigate the pitfalls of a broker-dealer change and close the deal in an incredible timeframe of 30 days.

TRANSACTION DETAILS	
LISTED	February 26, 2016
CLOSED	April 22, 2016
TOTAL INQUIRIES	62
BUYERS ENGAGED	2
OFFERS RECEIVED	2
REQUESTED TERMS	
$2,500,000 • 75% down • 2-yr adjustable note	
FINAL TERMS	
$2,500,000 • 75% down • 2-yr adjustable note with a 20% adjustment "floor" at 5% interest	

KEY TAKEAWAYS

The best fit for any given seller is not necessarily within the seller's Broker-Dealer. A buyer who is experienced with acquisitions outside of his or her Broker-Dealer can help navigate the challenges of a broker dealer change in the least abrasive manner for the seller and seller's clients.

A prepared buyer is a strong buyer. Establishing financing relationships, such as pre-approval through a lending source, and being prepared to offer asking price and terms for a prime acquisition opportunity will give a buyer an edge over the field of competition. A prompt offer with proper financial backing is both impressive and reassuring in the eyes of a seller.

Sellers should understand the value of what they have built and what the market will bear. Not every practice will demand a premium, even in a seller's market. Any seller should make sure to hire a consultant who understands the marketplace and can help the seller position their practice in the market with appropriate price and terms.

While finding a buyer through institutional relationships can lead to success, the crucible of the open market can serve as a measuring stick for buyers introduced through a limited market or personal introduction. Going to the open market can reduce the chances of wasting time with a disingenuous buyer and can increase the chance of finding the best fit the first time.

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