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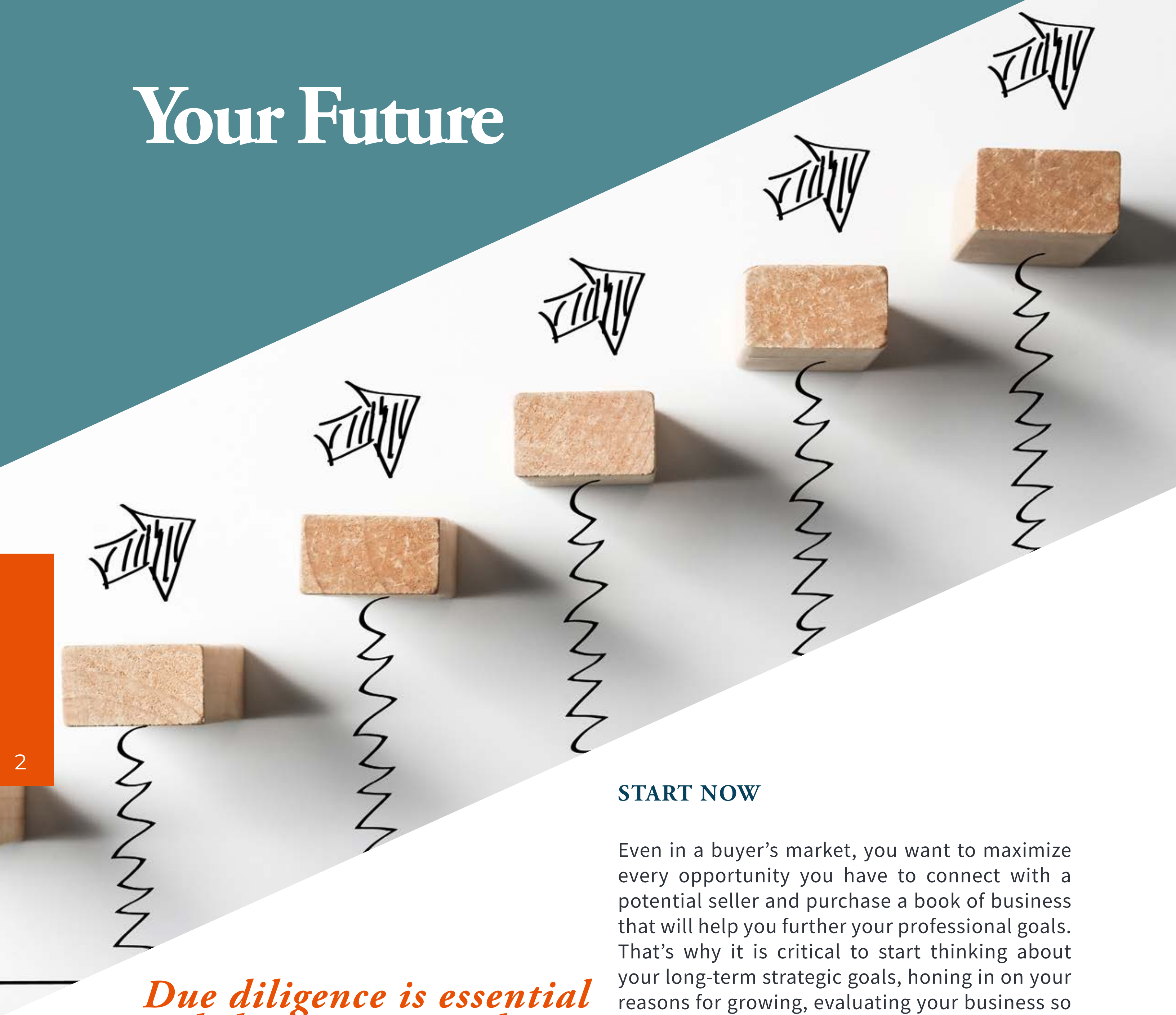
10 Steps

Before You Buy A Practice

Your Future



Due diligence is essential to helping you avoid "buyer's remorse."

In our experience, the majority of buyers are not prepared to purchase a book business, or to even have a conversation with a potential seller. Yet, preparation is the key to success in acquisitions.

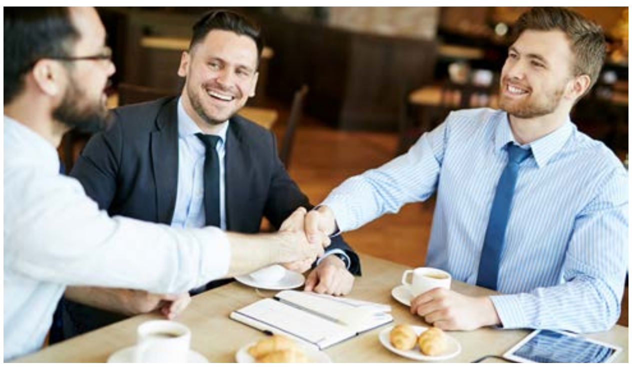
START NOW

Even in a buyer's market, you want to maximize every opportunity you have to connect with a potential seller and purchase a book of business that will help you further your professional goals. That's why it is critical to start thinking about your long-term strategic goals, honing in on your reasons for growing, evaluating your business so you understand your strengths and weaknesses, and working closely with qualified professionals to lay the foundation for a successful acquisition process.

In this white paper, we outline the ten most important steps you need to take to prepare yourself and your business for growth and success through acquisition.

Step One

Define Your "Why"



Before you begin searching for a book of business to purchase, you first must develop a clear, well written message on why you are wanting to grow your practice through acquisition. This message serves two purposes.

First, a clearly defined "why" helps you start establishing criteria for evaluating and identifying potential opportunities as well as the appropriate timing for securing opportunities. We will discuss this more in greater detail later in this white paper.

The second reason for defining your "why" is the fact that sellers will ask. You need to prepared with a compelling message that is greater than a desire to grow. It must convey not only your business case, but also the heart case for why you want to grow your practice through acquisition and how their unique business fits into your long-term strategy.

Long-Term Strategic Goals

What end goal are you working toward? What do you want your practice to look like when it is time for you to exit? Identify your ultimate strategic goals and work backwards to determine what types and what size of practice you need to acquire and when.

Acquisition's Effect on Quality/Value

Determine if and how an acquisition would impact the quality of your business as well as the economic, marketing, and strategic value of your business.

Align with the Seller's Why

To secure the deal, your "why" ultimately needs to align with the seller's "why." How do you as a buyer help them meet their goals for selling? How will you carry on their client service legacy?

Step Two

Define Success

IDENTIFY YOUR BEST CASE SCENARIO

The purpose of an acquisition is to purchase a book of business that helps you reach your strategic goals. To do this, you must know what the ideal practice looks like to help you reach your goals.

Develop a “best case scenario” picture of what the ideal book of business looks like for you. This will become the standard by which you will measure all opportunities. Specifically, what qualities of the practice will make it a good fit? Price isn’t the primary concern. Instead, focus on they key elements that line up with the core factors that define your business. Ask yourself

- Is the business located in my region?
- Do we serve the same or similar client base?
- Is their investment approach similar to mine?
- Are their business values in line with mine?
- Are we on different B/D platforms or are we both RIAs?

Write out a detail description of your best case scenario and use it as a benchmark for evaluating potential sellers.

Step Three

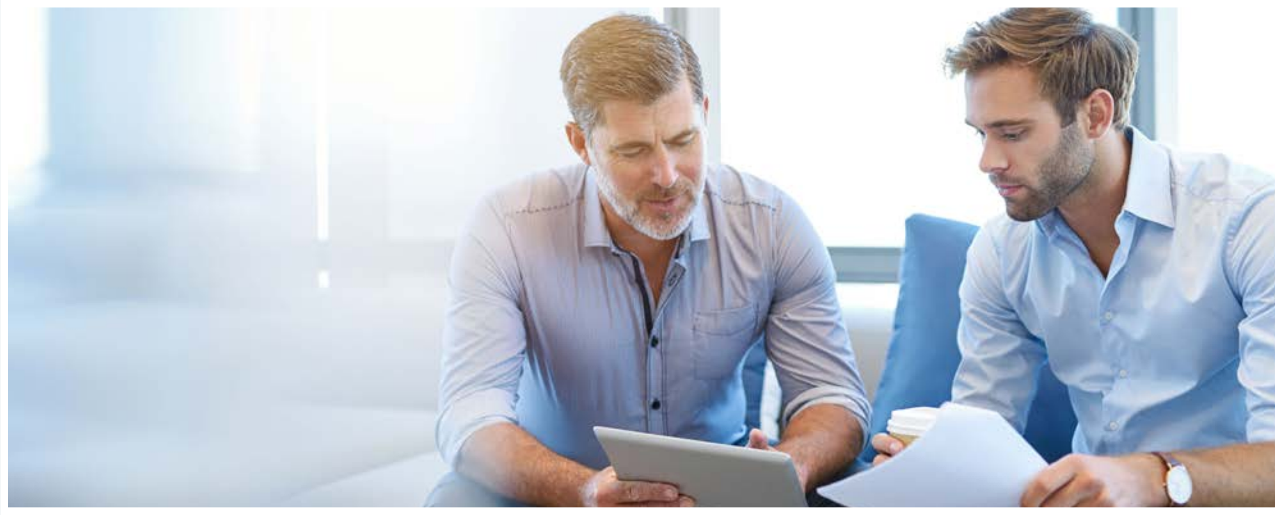
Measure Capacity

Be Prepared To Scale To Meet The Demand of New Clients

Its important to take inventory of your current capacity to serve clients. Then, develop a thoughtful plan on how you could realistically service 200-300 additional clients in a 3-6 month period on top of your current client base.

Its important that you see these new clients within 3-6 months in order to minimize attrition and ensure a smooth transition of service. If its your first acquisition, its best to start by acquiring a smaller book of business, one that you know for certain you can realistically service. Then, once you are comfortable with the process of scaling and know your capabilities, you can go after a bigger book of business for your next purchase.

Sellers expect to see a 30, 60, and 90 day plan for on-boarding clients. Don't build a bridge as you cross it. Have a blueprint developed ahead of time and know how you will communicate it to a seller.

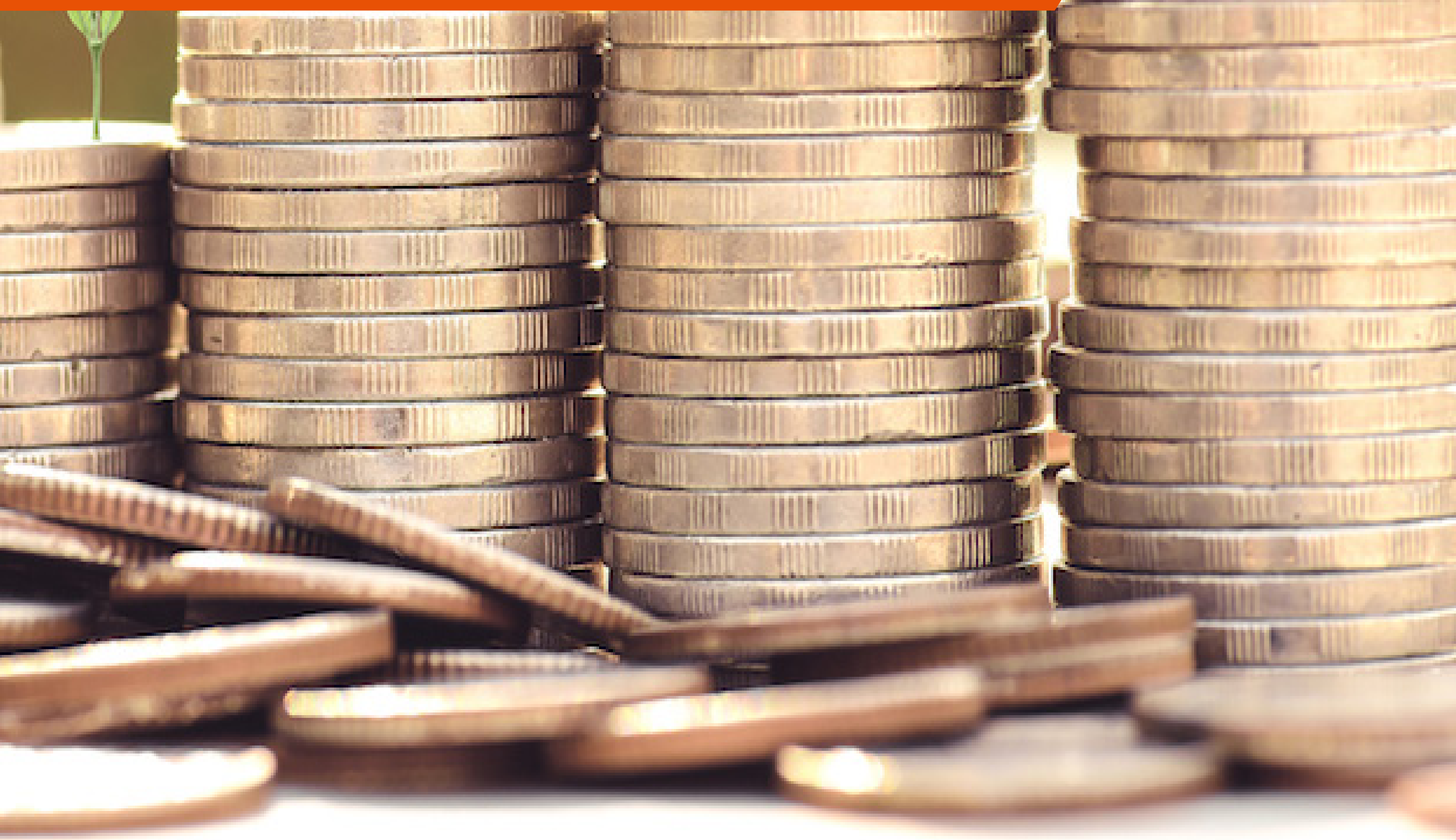


Step Four

Know a Lender

In previous years, most deals were seller financed. This was largely due to the fact that many lenders weren't providing loans to financial advisors. The market has changed, and now there are a variety of lenders actively providing funds for acquisitions and working capital. The benefit to you as a buyer is low to no down payment and better terms, usually 10 years. That means better cash flow. For the seller, this means they are able to cash out equity faster and don't have to serve as financier. This is a major competitive advantage for the buyer who comes to the seller with a lender already engaged.

Lenders do need time to do their due diligence, so allow extra time to provide them the necessary documents and for them to prepare the loan package.



Step Five

Know Your Worth

Savvy buyers secure a valuation of their own practice before engaging a buyer.

They use the valuation to gain valuable insights into the process and to set benchmarks for evaluating growth.

You know your practice inside and out. This allows you to anchor the information received from a valuation inside a practice you know very well. That way you fully understand the many factors that influenced the valuation number and can translate that to any valuation you receive on a prospective acquisition.

A valuation doesn't just give you a number. It gives you the ability to see your practice as a business asset that must be managed.

On the seller side, a valuation is a way to judge their commitment to selling. If they are willing to undergo the process for their own practice, you know they are serious.

Through the valuation process, buyers gain an understanding of how a practice is valued and how those factors are measured.

The valuation also becomes a benchmark for determining the value of the practice before and after the acquisition. Ideally the acquisition increases the value and profitability of the firm.

Step Six

Its Not About You

When you are trying to convince a practice owner to sell their book of business to you, its important to remember that your reasons for buying their practice don't matter to them unless you can connect your values and goals to their personal needs and goals.

They don't care that you want to grow your practice. They want to know that they are leaving their clients in good hands. Make sure you demonstrate that in your communications with them.

Communicate to Sellers

Ultimately, you have to convince a seller to sell to you, especially if you are competing with other buyers. Sellers engage with buyers that they like and trust. Most of all, they choose the buyer that they believe is the best candidate, who has their client's best interests at heart, and who best aligns with the values and strategies they used to build their book of business.

When communicating with sellers:

1. **Make It Personal**
   Share real-life stories about why you started your business, your vision for the practice, and how you go above and beyond for clients.

2. **Address the Seller's Concerns**
   Look at the situation from their point of view. Assure them that their number one asset, their clients, will be taken care of.

3. **Put It In Writing**
   Draft your case, complete with personal stories and how you will take care of clients, in a written letter to the seller.

By tapping into personal stories, connecting your goals and values with the seller, and cultivating a well written message, you will set yourself apart from other buyers and make the necessary connection that will build trust and facilitate a smoother transaction.

Step Seven

Get Acquainted With Your Profit & Loss

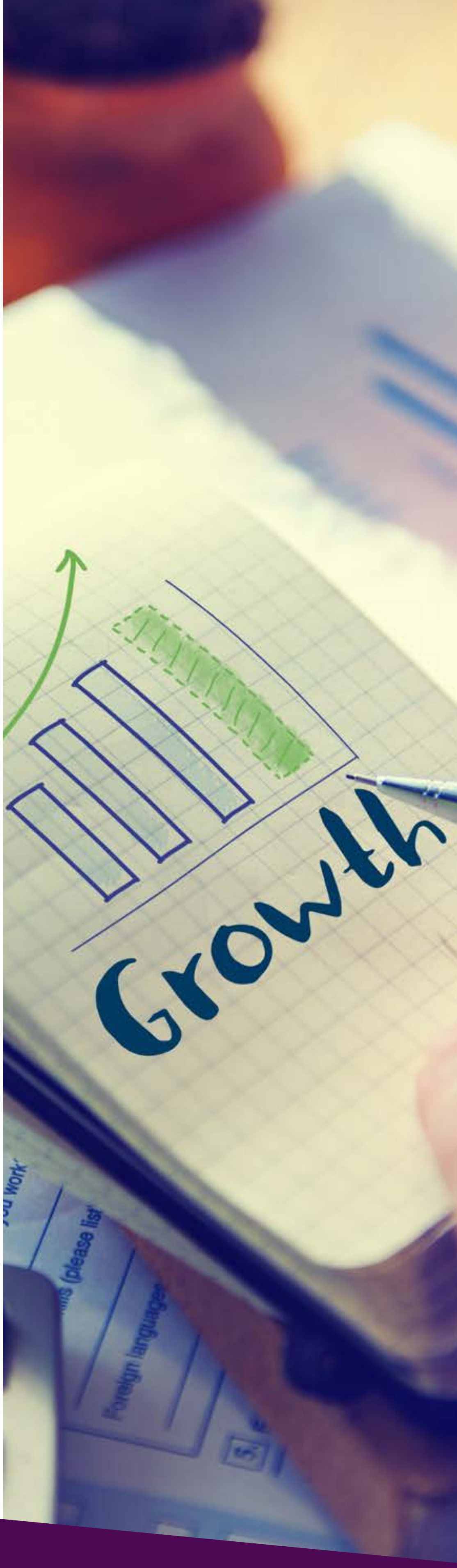
Financial Advisors are guilty of not spending enough time working on the business.

Before entering a significant financial obligation, you should have a thorough understanding of your current business finances. This is important for a couple of reasons.

First of all, a clear understanding of your finances is necessary for securing financing and for identifying any challenges to financing that may exist. Lenders will require your business financials in order to develop the loan package, so having them prepared, verified, and analyzed beforehand gives you a leg up in the process.

Second, you want to determine that your current business is profitable before you look at acquiring another book of business. You don't grow into a profitable position through acquisition. You establish and maintain a profitable position through careful management.

Again, the more you know about your business, the better decisions you can make about which book of business to buy.



Step Eight

Engage A Coach

A coach can have a tremendous positive impact on the buyer's success before, during, and after the deal closes. An experienced coach is able to provide an objective perspective and specific knowledge about what works, is able to help the buyer foresee and mitigate potential challenges, and helps the buyer identify and fully exploit opportunities he would not be able to on his own.

Specifically a coach can help the buyer in the following ways:

Before the Deal

Helps you prepare to approach the seller and make the best impression possible by:

- Helping you hone your message
- Connecting you with qualified lenders
- Securing certified valuations

During the Transaction

A coach helps you navigate the entire transaction by:

- Educating you on the proper terms and process
- Facilitating negotiations and structuring the deal

After the Deal

A coach ensures a successful outcome by helping you increase your capacity to serve by:

- Identifying necessary staff changes
- Developing a client on-boarding plan
- Helping you manage the business transition

Step Nine

Know the Rules

Whether you operate under a B/D agreement or are an RIA operating under one of the major custodians, its critical to know the rules governing your type of transaction.

Many organizations have internal succession departments that can advise you on the rules, or you can select an independent coach or succession expert who is experienced in facilitating transactions for your specific platform.

There are also many rules and regulations that govern how different lenders must operate and how different loan products must be packaged and distributed, so its important to engage a lender early and identify any requirements ahead of the deal.

Knowing the rules ahead of time helps you stay ahead of any speed bumps in the process, while demonstrating to the seller that you are a professional and serious buyer.

Step Ten

Network

Connect with other Advisors

Despite the growth of the internet and the number of deal making services, most deals are still made through good-old fashioned direct contact. Networking not only helps you learn who is in the market to sell, it also allows you to build a personal connection, which significantly influences who a seller ultimately chooses to carry on their legacy.

Make it a point to network with the "grey-haired" advisors in your region. Also tap into the networks and resources of your B/D or custodian. Often they know which sellers are looking to make an exit and can make a personal introduction. Also attend conferences, meetings, and other networking events. Especially focus on those events with programming centered around legacy/succession planning and M&A activity.

If you put in the effort and start networking early, its possible to find and close a deal in under 12 months. Its also the best way to snag an opportunity before the competition even hears about it, as you'll have the inside scoop and the relationship already in place.

Conclusion

Overall, the better preapred you are in advance, the more positive the outcome. Often, we recommend starting the process at least one year in advance, if not longer so you have time to throughly explore your options and to get all of your proverbial ducks in a row. By taking your time and deliberately and diligently going through the steps listed above, you set yourself and the practice up for success.

Your time and money are valuable. Make sure you do it right.

Next Step

If you think you're ready to start exploring acquisition opportunities, its time to schedule an initial consultation with an Acquisition Expert who can answer all of your questions.

Go to https://www.advisorlegacy.com/index.php/contacts

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