Case study: Opportunistic Buyer

Roy D. of Oshkosh, WI has been active in the acquisition of advisory practices for over 15 years.

Roy's first experience came when he bought out a branch manager and took over the management of his firm. He has since acquired five other practices, ranging from the small to large.

Through this process, Roy has developed an efficient strategy and approach for identifying target firms, negotiating terms and integrating those new client relationships into his business. This approach has been a key strategic advantage for him as he has been able to quickly and opportunistically grow his firm.

Roy finds his opportunities by networking in his local community through his activities in rotary club and informal lunches with other advisors. Roy listens for key indicators that the advisor may be interested in exiting the business and motivated to sell.

Key prospects are those who are experiencing health issues, are looking to retire or who wish to leave the industry. "You really need to have a motivated seller who wants to transition the business in order to make the sale a smooth one," he advises.

Roy's advice for working with either buyers or sellers is that you have to be compatible on a number of levels. These include individual personality between advisors, type and size of business, as well as overall business practices. Because the process for transitioning client relationships can take up to several years, you really need to be comfortable on all levels with your buyer or seller.

While rules of thumb for valuing practices can work for beginning the negotiation process, the ultimate key driver for the deal is the percent of clients that are successfully transitioned to the new owner. Therefore, you need to structure the price and terms of the deal that reflect the dependence of the payment streams for the purchase on this key aspect.

Roy is a big fan of earn-out structures, where a portion of the price is paid up front in the form of a down payment, while the remainder is paid out over several years depending on the amount and level of revenues that transition. This puts both parties at risk, he says, which provides a solid motivator to the seller and buyer for making the deal work. Ultimately, the total price paid over time needs to adequately compensate the buyer for the time invested in the process as well as the overall internal rate of return.

Other best practices Roy has learned include working with other RJFS advisors. While he has acquired a practice from a different broker/dealer, the level of complexity involved dramatically impacts the amount of time involved and the success rate of the client transfer. Confidentiality is also a very important component of the deals to maintain open sharing of information and ensure momentum of the deal process. Additionally, the terms and structure of the deal often have more to do with the actual value transferred than the initial price agreed upon, due to issues such as taxes and other factors.

Bottom line, with a thoughtful and opportunistic approach to acquiring practices, advisors can quickly grow their firms, particularly as demographics start to play an increasing role with baby boomers cycling towards retirement.