



# Buying and selling a Wealth Management Firm

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Presented by:

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# Despite the need for consolidation, many transactions do not close

## Buyers discuss:

"... their valuation expectations were too high"

"... there was too much concentration in too few advisors"

"... they aren't ready for due diligence... what else could we be missing?"

## Sellers often note:

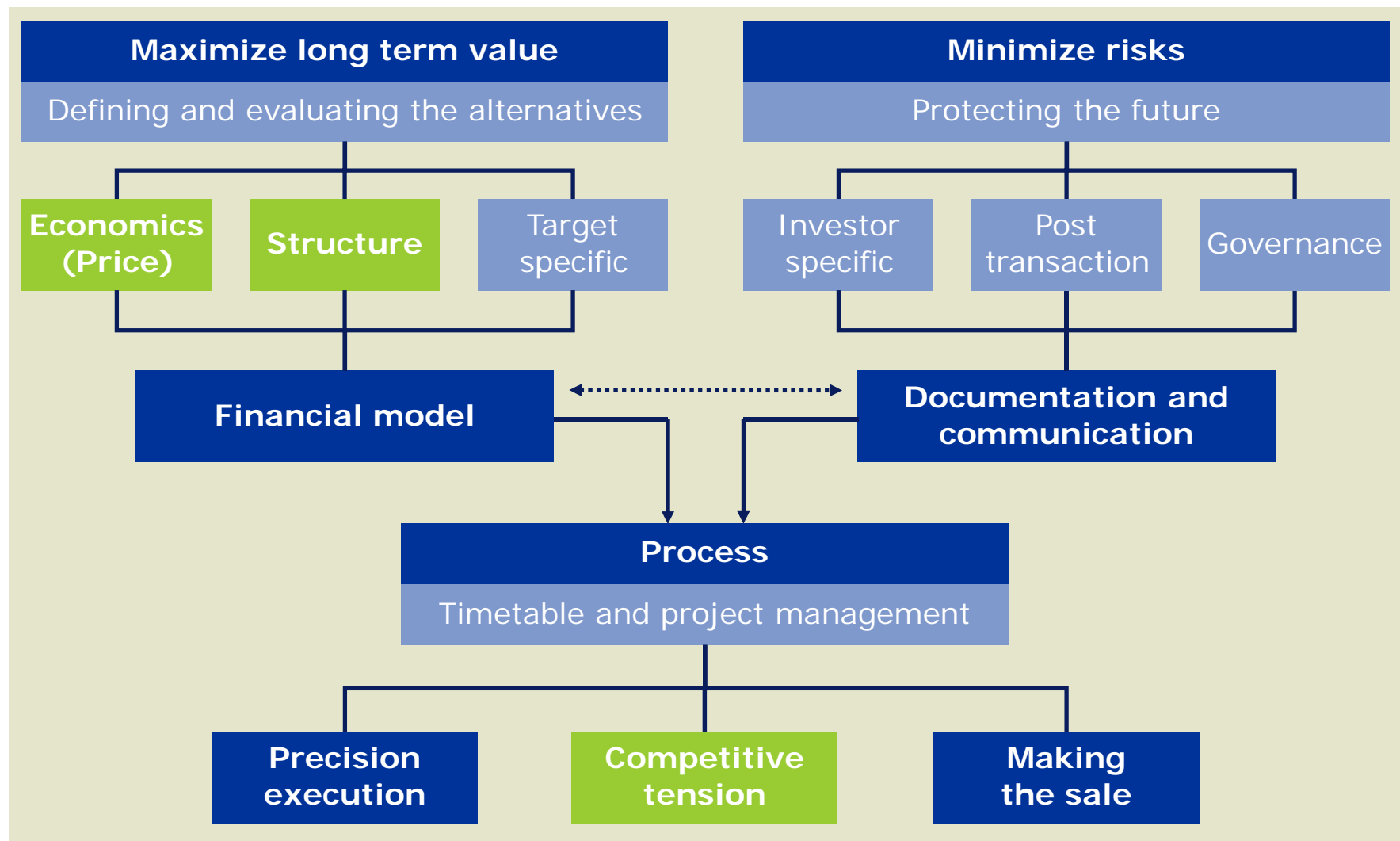
"... This is taking too long. Are these guys serious or just fishing around?"

"Why do they want to see all this information?"

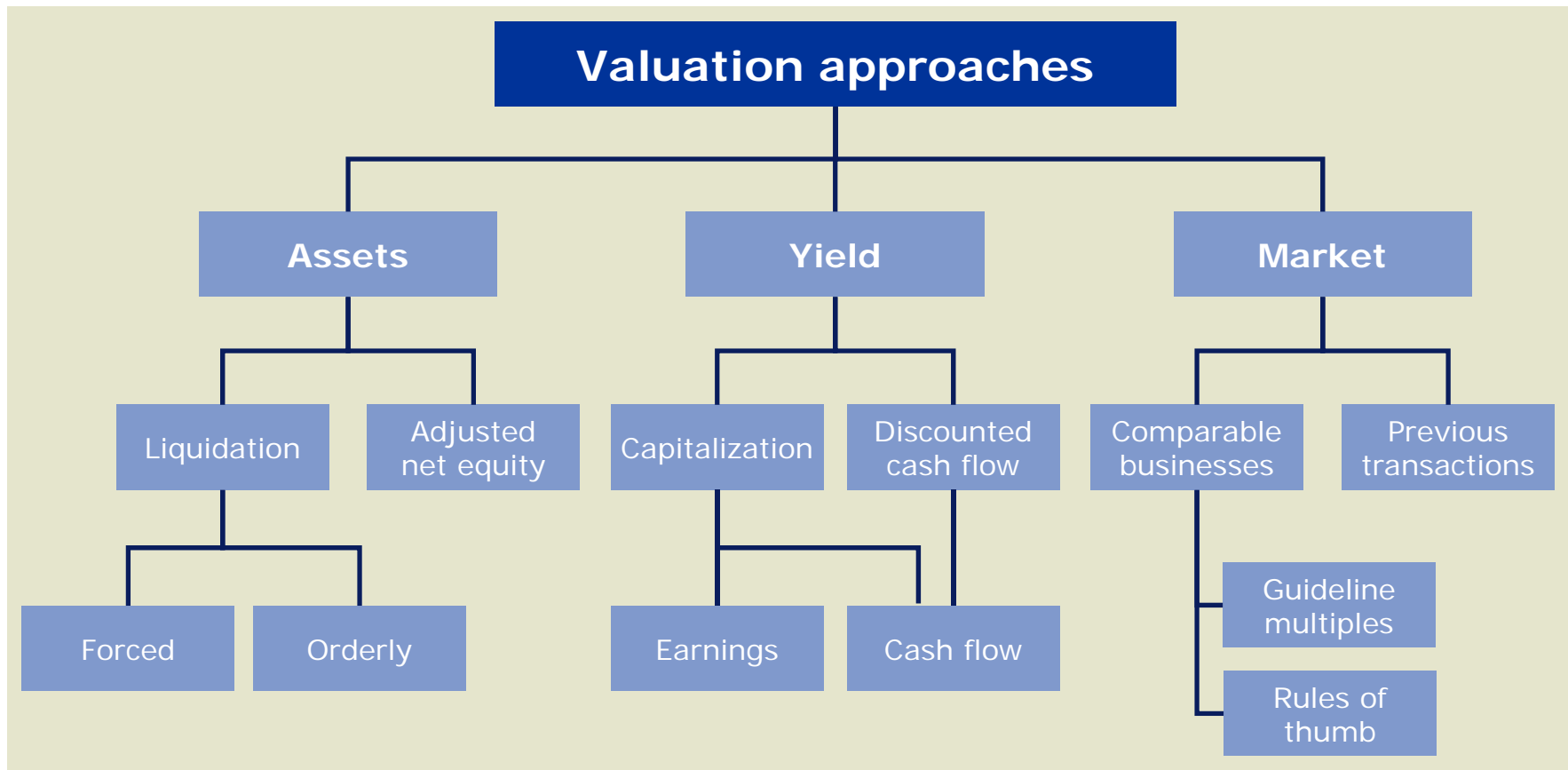
"I'm worried about word getting out on the street"



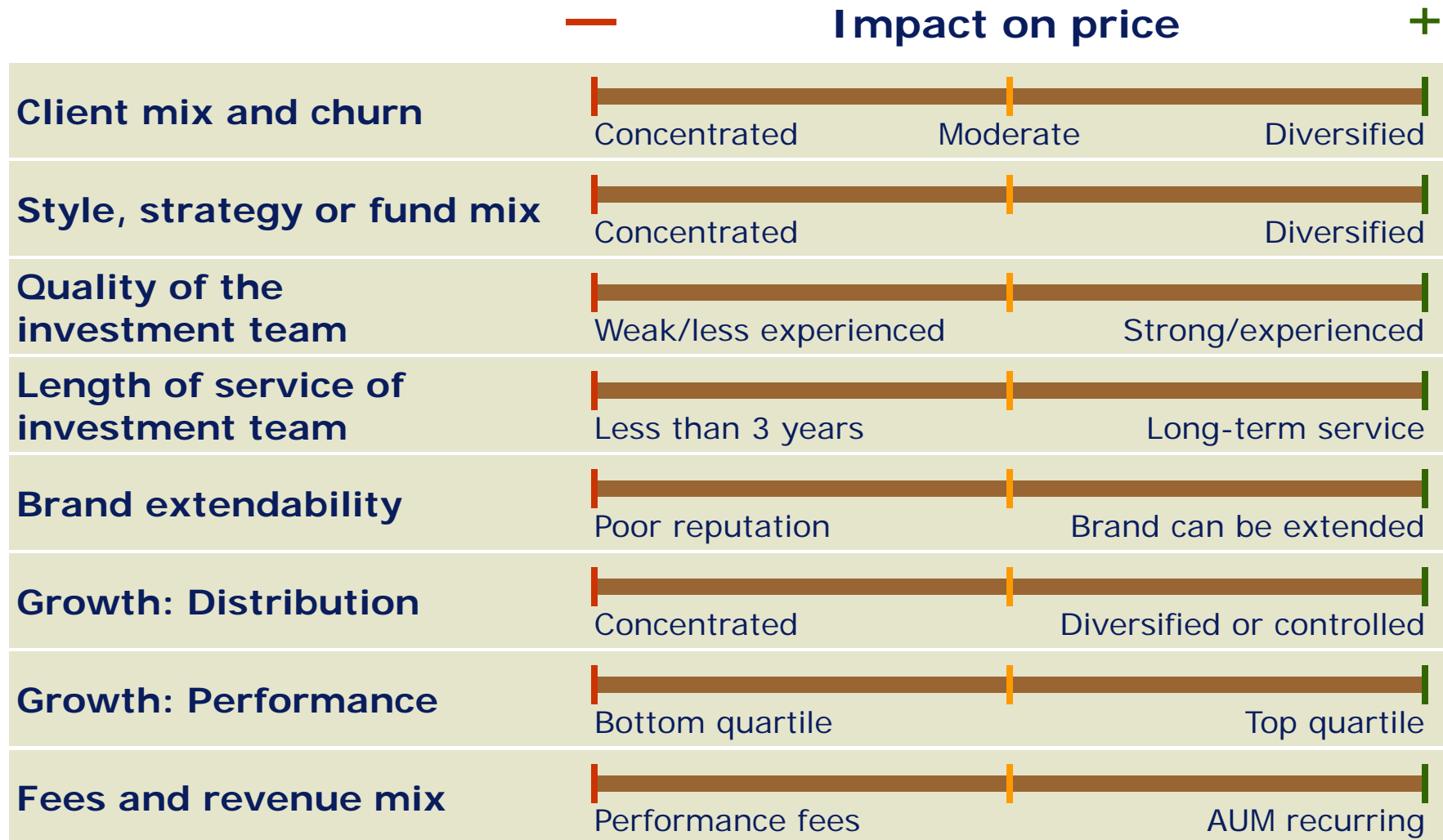
# Process is critical to success



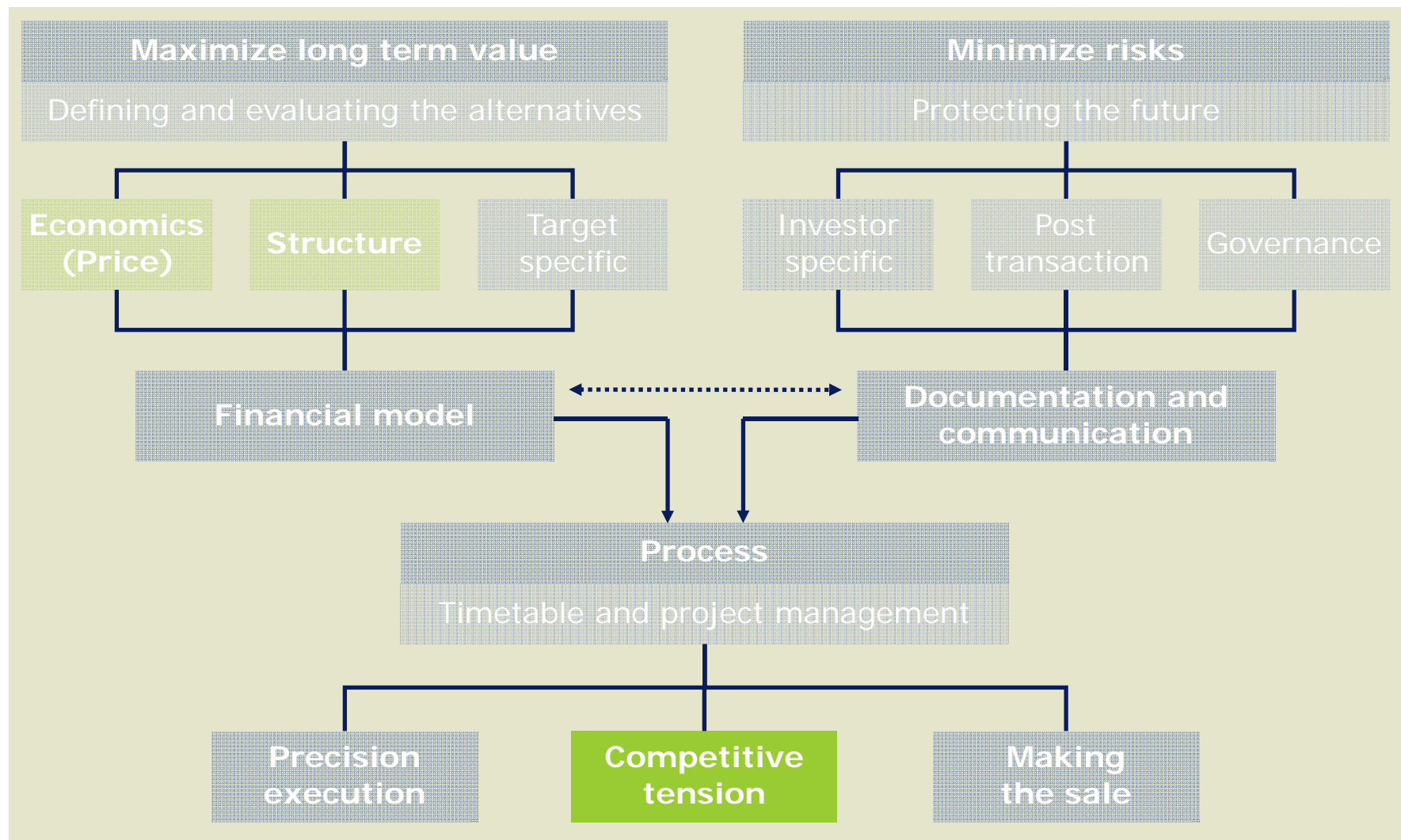
# Determine a value range based on appropriate valuation approaches



# Each transaction is unique and the following issues will drive pricing



# Process is critical to success



# Competitive tension is a powerful tool

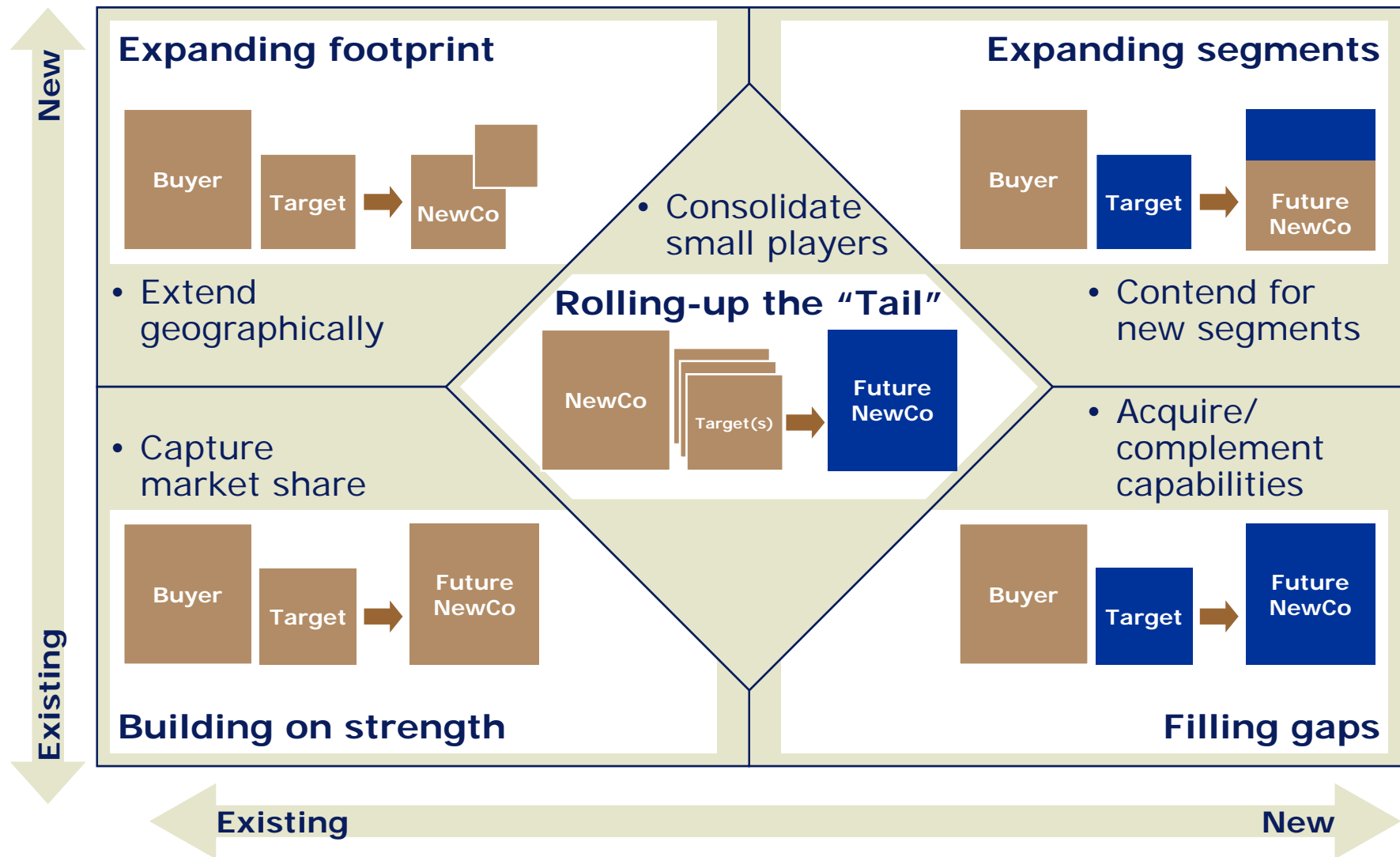
## For sellers:

- A seller can manage the process and set deadlines when there is competitive tension
- Understand who your buyers are
- Design information to fit each group of buyers

## For buyers:

- In a non-auction format, gaining exclusivity based on a NDA or LOI is very powerful (free option)
- If the buyer can drive the process, then the timelines can be set by them

# Developing the strategic intent of a buy-side strategy is critical

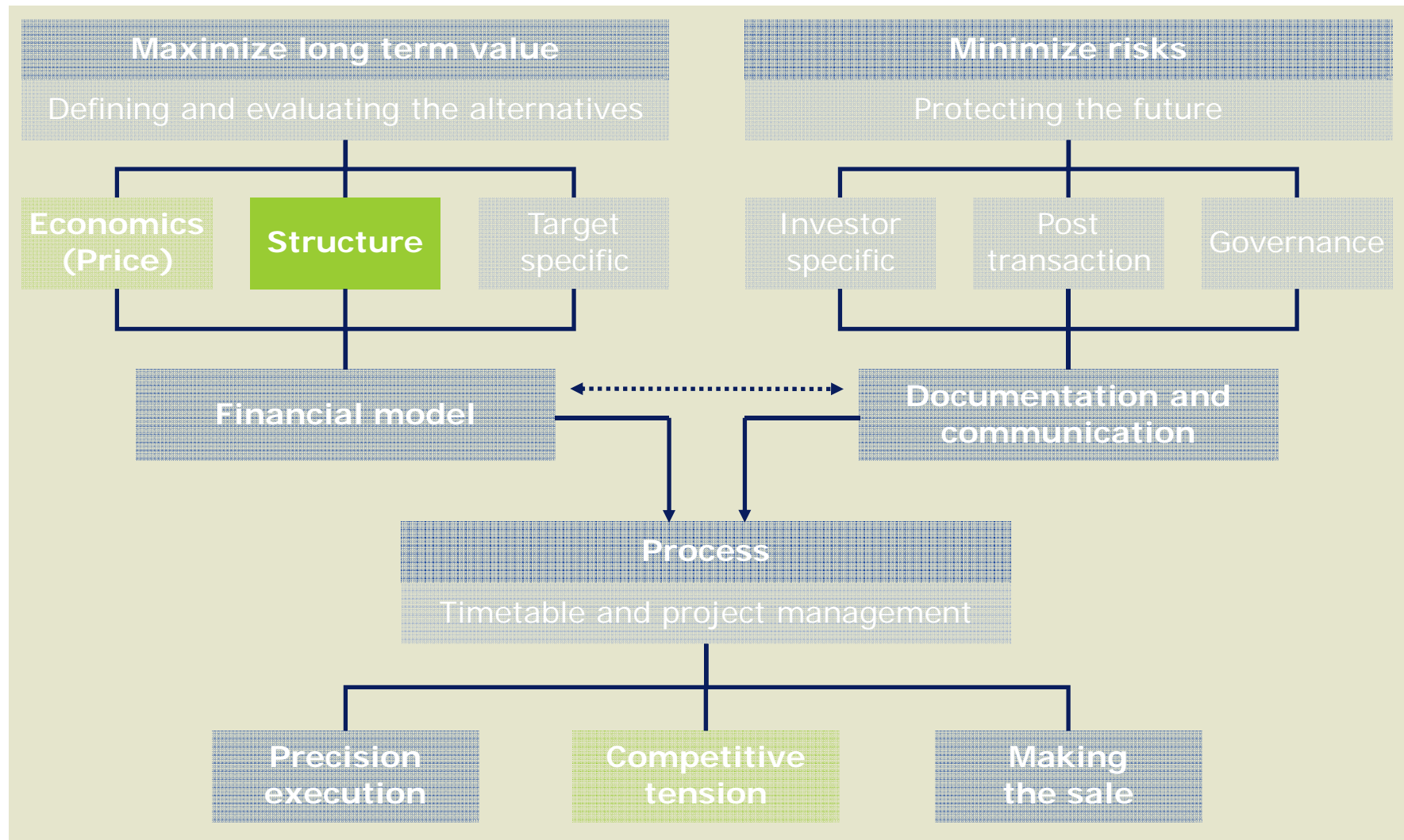




# Diligence checklists include the following:

- **Corporate Structure:**
  - Corporate Chart
  - Minute books, by-laws, etc.
  - Shareholders agreement
- **Operations:**
  - Monthly operating reports used by management including key metrics
  - Advisor satisfaction and risk of advisor loss
  - Quality of IT systems
  - Understand risk management framework
- **Financial Statements**
  - Last 3 years (audited)
  - Unaudited monthly financial statements for each month and year-to-date
  - Related party transactions
  - Changes in accounting Policies (past and current)
  - Projections (model)
- **Regulatory Matters:**
  - Compliance Documentation and Reports filed with SRO's
- **Financing:**
  - Copies of all agreements, guarantees, etc.

# Process is critical to success



# Three key elements for structure considerations need to be considered

## 1) Retention and Preservation of Value

- Ensuring alignment of interests is part of the solution for successful transition and integration

## 2) Financing:

- Structuring debt financing while meeting regulatory capital requirements can be challenging for smaller firms

## 3) Tax Structuring:

- Creative tax structuring may bridge a gap in valuation

# Retention and preserving value is a focus in transaction structures

- **Retention and ensuring performance meets the desired metrics is of critical concern to buyers. This is managed by:**
  - Earn-out Agreements
  - Vendor Take-Back Notes
  - Share transactions with vesting periods
- **There is generally a cash component in the transaction**
  - Transaction structures are unique to deal context so it is difficult to generalize
- **Post-transaction agreements are also critical:**
  - Key Employee Agreements and Compensation structures
  - Transition management is critical

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# Structuring Considerations - Financing

- **Financing transaction structure often depends on the context of the buyer**
  - Public or Private
  - Size of Target relative to Acquiror
  - Relative valuation of buyer's shares and balance sheet
- **Quality of Vendor Financing**
  - Regulatory constraints can make it challenging to finance a transaction with only debt
  - Smaller wealth management and asset management firms face greater challenges with sourcing debt capital
- **Potential source of equity capital:**
  - Need to identify potential sources of growth equity capital for accretive transactions (private or institutional)

# Structuring Considerations - Financing

## Sample Senior Term Sheet

Criteria	Key Questions / Considerations			
Structure	<ul style="list-style-type: none"> <li>Committed Non-Revolver Reducing Credit Facility</li> <li>Term to Maturity: 3 Years + Company's option to extend one year</li> </ul>			
Covenants	<ul style="list-style-type: none"> <li>Debt/EBITDA &lt; 2.5</li> <li>Debt Service Coverage Ratio &gt; 1.3 (calculated as Normalized EBITDA less cash taxes, 10% of DSC fees, unfunded Capex / Principal and Interest Paid in trailing twelve months)</li> <li>Capex restrictions (tied to Company's business plan)</li> <li>Minimum AUM at a certain threshold (approximately 60% to 75% of current total AUM)</li> </ul>			
Interest Rate Grid	Funded Debt to EBITDA Range	Bankers Acceptance Stamping Fees	Prime Margin	Standby Fees
	2.0 to 2.5	3.00%	1.75%	0.75%
	1.0 to 2.0	2.75%	1.50%	0.625%
	< 1.0	2.00%	1.25%	0.50%

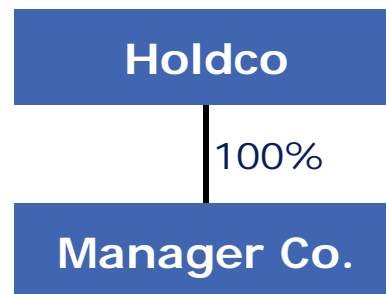
# Tax Considerations - Assets vs. shares

- Vendor's perspective:
  - Will want to access benefits of capital gains exemption
  - Worth up to \$175,000 per qualifying shareholder
  - Family/estate plan: Multiply access to the \$750,000 CGE
- Purchaser's perspective
  - Likely prefers an asset purchase
  - Avoids any concern re: tax contingencies of manager
  - Structure to ensure tax deductions for management contracts
- Vendor's Personal tax planning
  - Avoid realizing any capital losses in year of sale
  - Prior years' tax filings – e.g., ABIL's, investment expense may restrict CGE claim



# Longer term planning

## Use of holding company



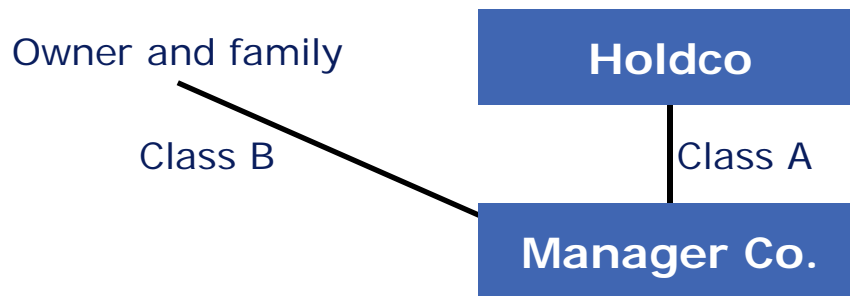
- Benefits:

- Asset protection: after-tax earnings of Manager Co. paid to Holdco
- Family / estate planning

- Costs:

- \$750K CGE only available, if at all, through sale of Holdco shares
- Purchaser likely unwilling to buy Holdco shares (especially if several employee/shareholders with separate Holdcos)

# Longer term planning Use of holding company (2)



- Individuals own Class B shares having value sufficient to maximize \$750K CGE
- Holdco owns remaining shares
- Purchaser acquires shares from Holdco & individuals

# Contact Information

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