Your Q & A: How Do Wealth Managers Make M&A Deals Now?

Originally Published By **Tom Stabile, Fund Fire**

Question

How can a wealth manager maximize its opportunity to merge with or acquire other wealth managers?

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The first step a potential acquirer needs to make is to determine that they are fit enough to conduct mergers or acquisitions. They must take stock of the markets they are in and assess their strengths and weaknesses. Wealth managers that are stronger financially and organizationally typically make the best acquirers, but such a profile does not guarantee success. It's common for weaker firms to overlook their shortcomings and run headlong into the M&A game. These firms are often less competitive in the bidding process and less successful at merger integration should they close a deal.

The next critical step is to develop an "ideal target" profile. There are always plenty of firms for sale and even more firms that could be convinced to engage in deal talks if one has a compelling proposition. The best buyers typically develop a narrow definition that defines the ideal target. This allows them to be more selective, to invest their time in the appropriate deals, and to close on deals that make sense for the firm. With a definition of the "ideal target" in hand, buyers then need to find targets that match the ideal and minimize time that's spent on deals that don't fit. It's also allowable to occasionally spend time on select deals that may be exceptions to the rule. Sellers approach buyers either through an intermediated auction (with an investment banker) or through a direct approach (from the seller's management). Buyers can also take it upon themselves to approach targets on an unsolicited basis.

Remember to set your firm apart. The best buyers are meticulous and very calculating when it comes to preparing their presentation on "why us," assuming each deal is competitive. They believe that sellers will be entertaining offers that are close in dollar value and will prefer their firm to be sold to an acquirer that offers the best fit for clients, employees and shareholders. Too many buyers go into deals assuming they are great and everyone should know that, only to get outclassed by rivals that thoughtfully and conscientiously prepared in advance.

Structuring the transaction to protect your deal is crucial. The wealth management industry is unique in that it's pretty common for buyers to obtain the right to adjust the deal price downward in the future should a company's assets, revenues or cash flows fall as of a determined anniversary date (typically one year). These provisions, called "claw-backs," are beneficial in good times and essential in challenging times like the present. Finally, buyers can do everything else correctly, but if they mess up the integration, it will likely all be for naught. Successful integrators begin early, communicate often and perform high quality analysis on the underlying assets. They are also creative about repurposing resources. Above all, they balance the "do it right" with the "do it right now." The rewards are bountiful for the firms that can master these steps, especially in the present market. Lady Luck does play into the M&A game, but as with most disciplines she favors the diligent.