How Savvy RIA Buyers Should Negotiate in a Seller's Market

10/20/16 Originally Published By Diana Britton, WealthManagement.com

In what many say is a seller's market for RIAs, how does a buyer stand out and land the deal when other bidders are involved? It comes down to understanding the unique sensitivities of the seller and a little bit of a personal touch, according to a panel of experts at the **ECHELON Partners'** Deals & Deal Makers Summit in New York on Wednesday.

Ted Cohen, a senior partner at Spolin Cohen Mainzer, said that buyers need to show interest in more than just the price of the deal by being sympathetic to possible caveats such as certain employees being retained or the seller's name staying on the company. Take them to dinner or invite them to your home, he says; this is rare in the world of mergers and acquisitions.

"This can really make the difference when economics are the same," Cohen said.

David Mrazik, managing partner at MarketCounsel, added that he has plenty of clients who have taken a lower purchase price because they really liked one buyer over another.

With the RIA M&A environment as it is right now, buyers do have to be careful before getting too far along in a bad deal, because when one RIA is buying another, there's information asymmetry. The seller knows their business, and no amount of due diligence is going to produce the level of knowledge the seller has, Cohen said.

For one, Cohen recommends advisors buy the assets of the firm rather than the business itself. This provides a clean start, and it leaves all the entities, contract claims, liabilities and other uncertainties behind.

Next, buyers can require sellers to terminate all employees and pay all deferred compensation, accrued vacation liabilities and other benefits at the time of closing.

Cohen also suggests buyers allocate as much of the purchase price as possible to the seller's principal and to a non-compete to enhance deductible expense.

And while it may not be in the best interest of the seller, buyers can make it a condition to have in-person meetings with key clients before closing the deal. This can help buyers reach the conclusion as to whether the deal is a good fit or not.

Buyers should also get affirmative consents from key clients; this is the manifestation of the clients' will to stay with you. Investment advisors, after all, are after the assets; they want the associated run-rate with the firm, Cohen said.

If you don't get the consents you want, the amount you're acquiring may be materially different from what was valued in. As a buyer, you can negotiate a lower price if the assets acquired are less than expected.

An advisor can put a provision in the deal that allows for a reduction in the deferred portion of the purchase price for AUM that is not retained by the buyer for an agreed-upon period, such as six months to a year.