

## ADVISOR M&A: 4 HOT-BUTTON ISSUES

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Call it the great M&A debate.

Whenever advisors discuss mergers and acquisitions, a handful of hot-button issues invariably dominate the conversation. And two prominent industry M&A experts offered some spirited discussions on a few of these contentious issues at this week's debut [Deals & Deal Makers Summit](#) in Santa Monica, Calif.

### VALUATION

A perennial question in the M&A world is whether advisory firms should be valued based on assets and revenues or EBITDA.

The true key to valuing a firm is its future earning potential, says Mark Tibergien, chief executive of Pershing Advisor Solutions. "A buyer needs to know what kind of return he will get, and you can't get that number based on revenue," he told the conference attendees. "A buyer needs to know what the free cash flow is. He doesn't want to pay twice by finding out he has to invest in the business to make it profitable after having already paid to acquire it."

While a multiple of two times revenue is an old rule of thumb for valuing a firm, a better metric is a multiple of EBITDA, according to **Dan Seivert, CEO of investment bank and consulting firm Echelon Partners, which hosted the conference.**

Nonetheless, basing a deal on revenues shouldn't automatically be ruled out, Seivert says: "You want the deal to get done, and sometimes keeping something simple is better than keeping it pure."

### INTERNAL OR EXTERNAL SALE?

Selling to someone outside the firm usually brings a higher price, reduces the burden of succession planning and brings a higher down payment with shorter payment periods, Seivert points out.

What's more, he adds, an internal sale can be difficult to orchestrate and value and has the potential to damage old personal relationships.

But internal sales have upsides of their own, Tibergien counters: lower risk, because the seller knows the buyer well; a better outcome for the staff, who don't have to worry about a disruption of the firm's culture; and more satisfied clients, who will also be glad that familiar personnel and procedures won't be replaced.

### FUTURE OF ROLL-UPS

There was little disagreement that there will always be a place for firms that offer advisors the opportunity to sell their firms at a fair price -- but there were more questions about the future growth path for so-called roll-up firms, also referred to as consolidators.

Within the past decade, nine roll-up firms have gone out of business, Seivert says -- and nine more, while still in business, have stopped making acquisitions. While many firms are mistaken for roll-ups, he says he'd only consider about a dozen that are currently active.

While roll-ups with cash can always add new firms, many advisors remain reluctant to sell out because they don't want to lose control to a large company -- which may be similar to the one they left to start their own firm.

The key question facing roll-ups, Tibergien argues, is whether they are "a financial play or really building a business." If they're building a business, roll-ups must have good management, be able to execute deals quickly and "execute on their liquidity strategy in a reasonable amount of time," he adds.

These firms are also far too fragmented, Tibergien says. "If you don't have a contiguous geographic presence, it's hard to build a brand that makes sense."

### **BUYER'S VS. SELLER'S MARKET**

The alignment between buyer and seller is often in the eye of the beholder, both Tibergien and Seivert agree.

The equation can also be influenced by such factors as the business cycle, the balance between the supply of clients and number of advisors available to meet that demand, and the percentage of advisors breaking away from established firms at the moment, they say.

It's also difficult to determine if it's a buyer's or seller's market, the two say, because the two parties may simply not be able to agree to terms, differing on such variables as price, the deal structure and risk.

"Someone maybe ready to sell," Seivert says -- "but that doesn't mean they're ready to sell to every buyer."

## **ABOUT ECHELON PARTNERS**

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