

TOP 10 LESSONS FOR DEAL MAKERS

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10 Key Lessons for Deal Makers to Follow



Since the inception of The Deals & Deal Makers Summit, ECHELON's mission has been to develop the industry's most intellectually rigorous event. For their 2015 event in Newport Beach, Calif., ECHELON carefully selected 20 speakers to purposefully go narrow and deep on the subject of deal making.

ECHELON takes pride in its relationship with firms across the wealth management industry and views hosting this event as an opportunity to share its proprietary research and experience gained advising hundreds of firms in the industry. Along those lines, here are the 10 Key Takeaways gained by Summit attendees. Do not be surprised if the content within challenges both your preconceptions and conventional wisdom."

Lesson 1: Industry Growth – Significant Tail Winds to Get Stronger



Professionally managed assets are projected to double in the next 10 to 15 years. With the advisor population continuing to decrease (on net) by 3.7k per year, this means assets per advisor are positioned to grow by 80% to 160% in the same time frame. The only "relief" in this trend may come from robots that take some of this volume off of advisors hands.

Lesson 2: Buyers – A Victim of Their Own Vices



Interest from sellers would be much higher if so many did not pull down the 'for sale' sign and go back to work after experiencing unprepared and underwhelming buyers. Professional buyers, however, aren't turned back by the low seller supply. Instead they hone their craft by reinvigorating turned-off sellers and bringing them back to the negotiation table.

Lesson 3: Sellers – Interest Never Really Gets White Hot



Would be sellers should not miss the opportunity to sell when the business cycle is expansion mode. Many advisors prep for a sale as the economy improves only to pull their property as they fall in love with the cash flow at the cycle peak. The downturn brings lower valuations and the cycle starts over again. Like yo-yo dieting, these firms often get weaker each cycle.

Lesson 4: Deal Volume – What You See is Not What You Get



Don't be fooled by what looks to be empirical research on M&A deal volume. While two industry studies suggest an average of 46 deals per year since 2000, true volume is likely three to ten times this amount given all the unreported deals. Also of note is that total AUM of firms in M&A deals has decreased as a percentage of total managed assets over the past 15 years.

Lesson 5: Valuation – Systematic Overvaluation of Smaller Firms



Advisors continue to have a long list of challenges with respect to valuation. One of the most vexing (for buyers) is how to value firms with less than \$100MM in AUM given they have little to no profits. IBDs and sellers of smaller firms, however, utilize an industry standard solution that systematically overstates their value. Because buyers aren't doing anything about it...we are left with a broken equilibrium.

Lesson 6: Financing – Hurray It's Here...with Caution



The long wait for deal financing is finally over, creating much needed relief for all those sellers holding notes that take a long time to pay off and keep them anchored to their firms for years. Lenders are quickly discovering, however, that the connection of founders to the firm means lower risk. This has caused the need for fewer 100% payouts at close and more payment spread out over time as the pendulum swings back.

Lesson 7: Human Capital – People Companies for People Industry



While we all know this is a people business, it's easy to miss becoming a people-centric company, especially post transaction. The best transactions keep human capital front and center, looking for the best ways to develop talent pools, flexible job descriptions, and solutions for those phasing into and out of the company.

Lesson 8: Taxation – Most Sellers Still Leave Millions on The Table



Buyers looking to maximize their gains often try to reclassify deal consideration into "earn outs" which they can expense. For sellers, these earn out payments often move deal consideration from capital gains to higher ordinary income tax rates. Sellers that avoid such moves by buyers often stop there, missing out on millions in additional tax savings.

Lesson 9: Breaking Up – Hard to Do, But Worth the Effort



Breaking up typically involves three parties not two...the departing advisor, the "existing" firm, and the "receiving" firm. The firm taking on the departing advisor needs to avoid a long list of easy-to-make missteps. The departing advisor and receiving firm need to work together to develop a transition process, preserve relationships, and ensure information collection and sharing are well orchestrated.

Lesson 10: Business Models – Optimize Growth, Risk Management, and Cash Flow



Those who optimize their model also maximize their valuation and liquidity options. The best models have a well-defined client segment, repeatable services, sustainable processes, scalable organizations and transferable ownership. When done properly, this leads to the best mix of growth, risk management, and cash flow.