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MARK C. TIBERGIEN  
AND  
OWEN DAHL



HOW TO  
VALUE, BUY, OR SELL  
A FINANCIAL  
ADVISORY PRACTICE

A MANUAL ON MERGERS, ACQUISITIONS,  
AND TRANSITION PLANNING

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## PRAISE FOR

### *How to Value, Buy, or Sell a Financial-Advisory Practice* **A Manual on Mergers, Acquisitions, and Transition Planning** by Mark C. Tibergien and Owen Dahl

“Anyone looking to value, buy, or sell a practice will find it an invaluable resource.”

*FINANCIAL PLANNING*

“Whether you are buying a practice, selling a practice, or just looking to maximize the value of your existing practice, this book will give you the tools you require to do so. I highly recommend it.”

*JOEL BRUCKENSTEIN*  
[MorningstarAdvisor.com](http://MorningstarAdvisor.com)

“*How to Value, Buy or Sell a Financial-Advisory Practice* is a thoroughly comprehensive book. Whether you’re in the market to sell your firm or acquire someone else’s, you will find it valuable in assessing both the present and future value of your operations.”

*RESEARCH*

“The advisory market is going through a seismic shift, forcing every adviser to focus on the key question: ‘How can I sell or transition my practice?’ The leading strategic thinkers in the industry have created this practical and insightful guide to help advisers find the right partner and transition strategy. This is the tool to enable advisers to capture this opportunity, protect clients, and grow staff.”

*RUEDIGER ADOLF*  
*Chief Executive Officer, Focus Financial Partners*

“Mark Tibergien knows more about the management of a financial-advisory practice than anyone else. If you’re a sole practitioner or an owner in a multipartner firm and you’re concerned about your long-term financial security, this book is essential. Mark Tibergien and Owen Dahl are providing an outstanding service to financial advisers.”

*DAVID H. BUGEN, CFP®  
Wealth Manager, RegentAtlantic Capital, LLC*

“This manual is one of the best of its kind that I have ever read. No stone is left unturned in describing all aspects of concluding a successful deal—from the financial to the psychological—for both buyers and sellers.”

*ALAN J. WEBER  
Chief Executive Officer, Global Wealth Management Partners, Inc.*

“Over the last two decades, Mark Tibergien has transformed the way advisers manage their businesses. This new book extends that work into the most important business decision of a principal’s career: buying or selling a business. Mark Tibergien and Owen Dahl have methodically dissected the complex M&A process to produce an invaluable guide that covers all aspects of transition planning.”

*DAVID DEVOE  
Director of Mergers and Acquisitions, Schwab Institutional*

“Don’t make the mistake of trying to buy or sell a financial-advisory practice without having first read this book. Not only does it tell you everything you ever wanted to know about the subject, but you’ll have a clear advantage in negotiating with the other party to your transaction if he or she has failed to read it.”

*DAVID J. DRUCKER , MBA , CFP  
President, Drucker Knowledge Systems  
Coauthor, Virtual-Office Tools for a High-Margin Practice*

“This is a most comprehensive guide that accurately defines how to value, buy, or sell a financial-services firm. Tibergien goes over the top in providing the adviser an understanding of how to maximize business worth. Regardless of what stage of your financial-services career you’re in, this is a must-read!”

*DAVID K . GOAD, CHFC  
President, Succession Planning Consultants  
Author of Succession Planning Strategies for the Financial Planner*

“This book is a must-read for all investment advisers who someday hope to sell their practices or combine them with other firms. It provides industry professionals with invaluable insight into the various aspects of a successful practice transition.”

*THOMAS D. GIACHETTI, ESQ.  
Chairman, Securities Practice Group  
Stark & Stark, Attorneys at Law*

“Mark Tibergien is the Peter F. Drucker of the financial-advisory industry. Principals of advisory firms ignore his counsel at their peril. ‘Value’ is a word of many meanings. Whether you’re a buyer or a seller of an advisory practice, Mark and Owen’s book takes the mystery out of the transactions, giving the reader a complete road map through the process.

“Principals of financial-advisory firms often procrastinate on one of the most important decisions of their business life. Building value in your business and executing a transition are not easy. You have three options: a transition to a strategic party, to a financial buyer, or to the next generation. The fourth possibility—to do nothing and let your heirs worry about it—is not really an option. The transition can be made a lot less painful by following the advice in this book.”

*SCOTT D. ROULSTON  
Chief Executive Officer, Fairport Asset Management, LLC*

“Mark and Owen have done a wonderful job bringing together all aspects of valuing, buying, and selling a financial-advisory practice into one, comprehensive, easy-to-follow book. I wish I’d had this book when we made our first acquisition.”

*MARK C. SOEHN  
Principal, Managing Director  
Financial Solutions Advisory Group*

“Tibergien and Dahl have delivered an excellent road map for financial-advisory firms seeking to avoid the critical mistakes that often result when deriving and realizing firm value. This comprehensive guide identifies the steps in the process and provides key insights on how to correctly identify and realize the value of your financial-advisory practice. Whether your focus is on buying and selling financial-advisory firms or on maximizing the value in your practice, this book will become an invaluable resource.”

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# How to Value, Buy, or Sell a Financial-Advisory Practice



*A Manual on Mergers, Acquisitions,  
and Transition Planning*

MARK C. TIBERGIEN  
*and*  
OWEN DAHL

BLOOMBERG PRESS  
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to valuation approaches, the marketplace, negotiations, due diligence, intermediaries, and buy-sell agreements"--Provided by publisher.

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*To my parents, Co and Marian Tibergien, for indulging me  
just enough to pursue my dreams.*

*—MT*

*To Mom and Dad, for teaching me that client service is not a  
concept, but a calling.*

*—OD*

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There are many others who, in many different ways, helped us to knit together ideas that we hope will better prepare those wrestling with the issues of valuation, mergers, acquisitions, and sales of advisory firms for the process. Our thanks to all of them.



Early in my career, I was recruited to Seattle by Shannon Pratt of Willamette Management Associates, Inc. As an early leader in the valuation profession and a current icon, he has led the way for many. I had the special benefit of having Shannon as a tutor on valuation principles and owe him a big thanks for being my teacher and for being an early influence in my pursuit of a profession.

—MT

Thank you to Bernie and Deborah Dahl of Assante Wealth Management for providing a front row seat to watch as British Columbia's venerable Reimer Financial Services was sold. More than anything, your experiences helped

to remind us that a successful transaction relies as much on humanity as it does on economics and good counsel.

—*OD*

# Introduction

MUCH HAS BEEN WRITTEN in the trade press about the value of financial-planning, wealth-management, and investment-management firms. This coverage—as well as the interest in it—has expanded as many prominent professionals in the business negotiate purchases and sales of such practices. Although the details of each deal are kept close to the vest, the rumored price and terms create a buzz that advisers can't ignore.

Owners of financial practices view these transactions with both excitement and trepidation. The excitement comes from knowing that there are buyers willing to pay rich prices for such businesses; the trepidation comes from thinking that this may be a window of opportunity they have little choice but to capitalize on soon. But we believe that well-managed firms will always be appealing to willing buyers.

This book lays out a number of issues that should help both buyers and sellers make judgments about the value of businesses. We also identify valuation considerations in the event of internal transition, partner admission, gift and estate tax, divorce, and even shareholder litigation. Value—like beauty—is in the eye of the beholder, but the principles of valuation have been constant for many years. Our goal with this book is to explain how to examine each of the variables and each of the assumptions that can shape conclusions on valuation. We also identify areas that owners can work on to enhance the value of an advisory business, provided they have enough time to plan for an orderly transition.

Not all practices are equal. And although it may be tempting to rely on rules of thumb and industry benchmarks

to define value, we've seen so many deals in which the multiple and the terms have been different that we tend to be fairly cynical about whether such models deserve much weight. The Financial Services consulting team at Moss Adams has consulted with more than 1,000 financial-services organizations on issues related to valuation, succession planning, practice management, and mergers and acquisitions, and we rarely encounter exactly the same assumptions and conclusions being used among these firms.

So even if you're inclined to rely on what other firms are bought and sold for as the basis for valuing your business (or one that you're buying), we believe you'll find *How to Value, Buy, or Sell a Financial-Advisory Practice* helpful in setting values regardless of the purpose of the valuation.

In the first six chapters, we offer a complete analysis of valuation theory and practice and present two case studies to help illustrate the key considerations. Our purpose here is not to give you an exact answer as to the multiple you should use but to demonstrate how to think critically about the differences in practices and therefore the differences in valuations. In chapters 7 through 11, we identify key considerations in negotiating an agreement and setting the terms of a deal. We follow these chapters with a discussion of integration after the sale and key issues to be considered in planning an internal transition.

You'll also find ideas on how to select intermediaries to help you through the sale process and our opinions regarding the state of the market. We close the book with a critical look at how to build value for your firm. The sample documents and checklists offered in the appendix will be useful to anyone contemplating a purchase or sale, although we emphasize that these samples should not be copied but used only as a reference. Only a qualified attorney familiar

with both the law and the nuances of your firm's circumstances can assist you in drafting documents.

As you prepare for the process of selling a practice, several key matters require your attention:

1. Be clear on what your goals are.
2. Begin building a history of the business by gathering relevant documents for the last three to five years.
3. Begin benchmarking your business against relevant industry standards to see how yours stacks up.
4. When negative variances show up in your benchmarks, think about the steps you need to take to close these gaps so that you can enhance value.
5. Remember, valuation is more art than science—the firm's numbers tell a story but so does its potential. Position your business so that you can improve your cash flow, minimize your risk, and manage your growth.

As you prepare to buy a practice, there are critical issues you must consider:

1. Value is a function of future potential, not the past results.
2. All firms are not created equal; therefore, rules of thumb are insufficient gauges.
3. Do your own due diligence; the seller's facts are not always as they seem.
4. The devil is in the details; focus on all the terms, not just the price.

And as you progress toward a final agreement, remember that whether you're buying or selling, the trouble you take to confirm the value of the practice while the deal is negotiated can only ensure greater rewards once it's sealed.

# **PART I**

## **Defining Value**

# 1.

## **UNCOVERING TRUE WORTH**

INVESTMENT OR FINANCIAL-PLANNING professionals—like many small-business owners—often have an inflated perception of the value of their practice. That’s because they typically have 15, 20, or 30 years of blood, sweat, and tears invested in the enterprise, and it has been a fountain of economic rewards during their working years. And they have heard many people quote market multiples that they are certain apply to their practices. But when you assess the value of a practice, shortcuts don’t tell the whole story. You must look more closely to understand nuances like the quality of the client base and the future potential of the practice. It’s also important to understand whether the firm is profitable in its current form and whether that profitability is sustainable.

For a buyer, a realistic understanding of the worth of the practice is essential to paying a fair price. And clarity on these principles will make sellers more effective negotiators. This chapter outlines the valuation process and highlights the factors that drive practice value. Subsequent chapters will address the mechanics of valuation, deal structure, internal versus external transactions, and other factors that should help you prepare for this process regardless of which side of the deal you’re on.

### **The Unruly Rule of Thumb**

For a business as straightforward as financial planning, many ideas that circulate about how to value a financial-advisory practice are surprisingly convoluted. Each month, Moss Adams LLP receives scores of calls from advisers who want us to tell them the rule of thumb for valuing a practice. “Is it the multiple of gross?” they ask. “The multiple of assets under management? The multiple of EBITDA [earnings before interest, taxes, depreciation, and amortization]?”

Especially maddening is that some practices actually do sell for a rule-of-thumb price. That doesn’t mean it’s an appropriate price, but it happens nevertheless. The good news for sellers is that these rising multiples are enhancing the value of their practices every day, and consequently these advisers are in a unique position to capitalize in a big way on the businesses they’ve built. But some important issues are essential for both buyers and sellers to consider in determining value.

The rule-of-thumb methodology presumes that all advisory practices are equal. Such assumptions are just as faulty in comparing advisory firms as they are in comparing stocks. If the price of Starbucks falls below the price that Microsoft is selling for, does that make it a better buy? The question is obviously not relevant because their economics are different. What’s more, each investor’s perception of risk and growth is different.

The inclination to rely on a rule of thumb makes it clear that buyers and sellers of advisory practices view these transactions as they do the purchase and sale of a house. In real estate, one can look at a neighborhood, measure the square footage, see if it has a view and come up with a price. Buyers of homes don’t usually calculate with accuracy what kind of return on investment they’ll get with this purchase, because the whole point is to acquire an asset

that they can live in and possibly sell for a gain down the road. Perhaps it's because buyers of advisory practices look at these firms as a means to an end, a necessary component for their lifestyle, a job, that they fall into this home buyer's approach to pricing them.

But advisory firms are not tangible assets like houses or cars; they're living, breathing entities with multiple nuances that could affect their value. What's the potential in the client base? How old are the clients? How profitable is the service model? Will clients accept the new adviser? What's the expense structure? What's the motivation of the buyer? of the seller?

### ***Distorting Value***

Rules of thumb tend to distort value. Even market comparables tend to distort value because of the unique characteristics of each business being sold, as well as the particular motivations of the buyers and sellers. We encountered an example of this when we were asked to evaluate a practice on behalf of a buyer—in fact, the buyer was in a bidding war to acquire the business. The owner of the practice had died suddenly, and his widow engaged a broker to find a buyer. The broker set the price at 2.5 times trailing 12 months' gross revenues. He advised our client not to bother offering anything less. In probing for the opportunity in this practice, we found that 40 percent of the clients were past the age of 70 and many were already withdrawing principal. None were contributing more cash to invest. Looking at the mortality rate of this client base gave the buyer enough pause not to step up to this multiple.

Oddly enough though, sometimes sellers don't realize what their firms have to offer. Again, relying on stated market rules of thumb, one adviser actually undervalued his

practice. His average client was a business owner or executive, age 45, whose income was increasing each year and who was contributing substantial new assets yearly. The growth rate for the foreseeable future was exponential, and the practice was extraordinarily profitable, but by relying on the rule of thumb, the owner appraised his practice as “average.” He now knows that the only time you should aspire to be average is when you are below it.

## **The Need for Valuation**

Drawbacks aside, rules of thumb and market comparables come in handy as a starting point for a discussion of value. For the buyer, however, that figure should rarely be the end point. So many factors related to structure, financing, terms, and taxes go into a deal that there should be give-and-take in every situation. The key question the buyer of a practice should be asking is, “What is a reasonable rate of return on cash flow when I make this acquisition?” By beginning there, the buyer can move toward an understanding of the principles of business valuation.

It is unnecessary for buyers or sellers to obtain a formal valuation before entering into a merger or sale discussion. Sellers often have an idea of the price they want for the business regardless of economic reality. Buyers, however, will benefit from some form of valuation process. It provides a foundation for early negotiations and will help them put their thoughts through an economic filter. Since most people in the financial-advisory business are financially astute, the valuation process should be easy to relate to.

If a buyer or seller does go through a formal valuation process, the evaluator should consider key standards, such as:

1. Market prices of comparable publicly traded companies
2. Transaction values of similar entities
3. A discounted cash flow analysis of the business being valued
4. A detailed and specific analysis of the entity and the market conditions in which it operates

Typically, the first three benchmarks are given less weight than the specific analysis, but they're considered nonetheless. In using a rule of thumb—or market comparables—only one perspective is considered. Such a single-lens view is a little like making investment recommendations for your clients based on the last conference speaker you heard: compelling but incomplete.

## **Standards of Value**

There are numerous ways to measure the value of a business. Two key questions are essential to beginning the valuation process:

1. What is the purpose?
2. What is being valued?

The answers to these questions determine the purpose of the valuation and dictate which standard of value applies and whether it's appropriate to consider discounts or premiums in deriving the value.

### ***What Is the Purpose?***

**Fair market value and fair value.** The standards of value relied on for tax, litigation, or contractual purposes are referred to as fair market value and fair value. Fair market

value is the standard used in the context of gift and estate tax and sometimes applies in the division of assets in divorce. As promulgated by Revenue Ruling 59-60, fair market value defines a value at which an asset or business would change hands between a typical *willing buyer* and *willing seller*, neither party being under any obligation and both parties being fully informed of all the facts. Fair value is a standard usually defined by state law and is typically used in divorce, partnership, and shareholder disputes and sometimes in buy-sell agreements.

It's quite possible that valuing an asset for tax, divorce, or litigation purposes will result in a conclusion different from that which results in the process used to determine value for purchase or sale. In the case of litigation or divorce or estate tax, however, the emphasis is not on a real-life transaction. When a sale or purchase is contemplated, fair market value may be a starting point, but other factors, including the motivations of the buyers and sellers, could change the result. Another standard—investment value—may also come into play, however, because this standard considers the potential synergy of the two businesses, a measure that's quite useful for some owners and sellers.

**Investment value.** The term *investment value* as used here is defined in the American Society of Appraisers' *Business Valuation Glossary* as the value to a particular investor based on individual investment requirements and expectations. Investment value is different from fair market value, which is value to a typical buyer and seller, for various reasons, including:

- ◆ Economies of scale available with the buyer's operations
- ◆ Synergies available with the buyer's operations
- ◆ Differences in future earnings estimates
- ◆ Differences in perceived risk

◆ Differences in tax status

Using investment value as the primary premise of value is inappropriate in the sale of an advisory practice because the seller should not receive all of the synergistic value; nor should the seller expect to receive the full premium. That premium should be considered as part of the negotiation process.

### ***What's Being Valued?***

Many assume that what's being valued is the entire business. But there are situations in which portions of the business may have to be valued separately. The difference would influence whether one applies a control premium or a minority or nonmarketability discount to the price. It's all a function of rights.

The more rights the owner has—such as the right to liquidate the business, declare dividends, or sell major assets—the greater the premium applied. A discount is applied based on the transferability of the asset, lack of voting rights, or lack of a ready market. These matters become important to define in the context of litigation, shareholder disputes, divorce, or the admission of partners or when using stock as currency in a transaction (see [Figure 1.1](#)).

The factors related to defining value also play a role in translating market rules of thumb into your planning. We often see buy-sell agreements with multiple shareholders in which the value of each ownership interest is based on an enterprise value, meaning 100 percent control divided by the number of shares. The challenge with this approach is that most of the shareholders in these companies cannot do the things they could if they had control (usually 51 percent