

# Advisor Acquisition Program

[thebancorp.com](http://thebancorp.com)

## An innovative lending program designed to help you grow your business.

The Advisor Acquisition Program has been designed expressly for the needs of financial advisors. Our intimate knowledge of the industry coupled with an understanding of the financial structure of advisory firms translates into practical financing solutions that address the unique characteristics inherent in the acquisition or sale of a financial services practice.

### ADVISOR ACQUISITION PROGRAM AT A GLANCE

- Funds for:
  - Business Expansion
  - Succession
  - Book Purchase
  - Working Capital
- Loan terms up to 10 years
- Competitive interest rate
- Flexible loan amounts
- SBA Preferred Lending expertise

## ADVISOR ACQUISITION MARKET DATA

- Bank financing was used in 60% of independent advisor acquisition transactions.<sup>1</sup>
- Twenty-seven percent (27%) of advisors plan to retire within ten years.<sup>2</sup>
- Forty-three percent (43%) of firms report plans to acquire another firm within the next two years.<sup>3</sup>
- Industrywide, practices for sale receive more than 50 inquiries of which 10 are from qualified buyers. In the RIA space, the number of qualified buyers jumps to 15 for every seller.<sup>1</sup>
- Average down payment is 57%.<sup>1</sup>
- Average multiple paid for non-recurring revenue is 1.00x.<sup>1</sup>
- Average multiple paid for gross recurring revenue is 2.60x.<sup>1</sup>
- Acquisition of assets due to mergers and acquisitions of independent advisors is up more than 30%.<sup>4</sup>

The Advisor Acquisition Program is designed to facilitate a variety of circumstances: acquisitions as a result of planned internal succession, an unplanned sale, an arms-length purchase by an established advisor practice as part of a planned growth strategy, or an experienced advisor making the transition from an employee practitioner to sole practitioner have all been contemplated. The following case history illustrates an example of why The Bancorp is your best and most trusted source for advisor acquisition financing.

<sup>1</sup> Succession Resource Group, "2016 Advisor Merger & Acquisitions Data Press Release," February 20, 2017, <https://www.successionresource.com/2016-financial-advisors-ma-annual-review>.

<sup>2</sup> Chris Hall, "How the Advisor Age Gap Plays Out," *Financial Advisor IQ*, March 20, 2017, [http://financialadvisoriq.com/c/1583873/182233?referrer\\_module=SearchSubFromFAIQ&highlight=chris%20hall](http://financialadvisoriq.com/c/1583873/182233?referrer_module=SearchSubFromFAIQ&highlight=chris%20hall).

<sup>3</sup> Christine Idzelis, "The Coming Wave of M&A for Advisory Companies," *InvestmentNews*, October 23, 2016, <http://www.investmentnews.com/article/20161023/FREE/161029989/the-coming-wave-of-ma-for-advisory-companies>.

<sup>4</sup> Cyril Tuohy, "Financial Advisor M&A Rises 30% in 2016," *InsuranceNewsNet.com*, March 10, 2017, <https://insurancenewsnet.com/inarticle/financial-advisor-ma-rises-30-2016>.

## THE ADVISOR ACQUISITION PROGRAM IN ACTION

Client Need: Book Purchase

### Background:

Forty-year-old Advisor Smith has been building a successful book of business for 15 years and now manages approximately \$100 million consisting of a combination of fee-based accounts and insurance products. Still young and focused on growing his practice, Smith has been actively looking to purchase a book of business from another advisor.

Advisor Jones is 70 years old and has been serving his clients for over 40 years. He has grown his practice to \$200 million in assets under management but is now looking to make a smooth transition out of the business. Smith and Jones carefully examine a variety of factors until they are both comfortable that they will be able to successfully transition Jones's book of business. As part of the process, they engage an advisory valuation firm which produces a formal appraisal. This helps the two advisors agree to a purchase price of \$3 million and they draft a purchase contract.

### The Bancorp Advisor Acquisition Solution:

Advisor Smith contacts The Bancorp to discuss financing. He would like to provide the minimum down payment of 10% and finance the remaining \$2.7 million. After documentation from both advisors is submitted, a full financial analysis is performed by The Bancorp that includes:

- Review of the purchase contract
- Full financial analysis of Advisor Smith's historical and projected cash flows
- Full financial analysis of Advisor Jones's historical cash flow
- Evaluation of Smith's personal financial statement
- Verification of the source of funds for the 10% down payment from Smith
- Credit report check for Smith
- Assessment of Smith's existing practice, his business ownership and management experience, and his plan for the combined practice

Soon afterward, The Bancorp approves the loan and issues a commitment. After Smith accepts the commitment, The Bancorp Bank obtains an independent valuation report, and the final documentation needed for closing is collected.

The Bancorp Bank then finances the Advisor Acquisition loan and pays Advisor Jones. The process of moving client assets from Advisor Jones to Smith begins, and Smith starts integrating the accounts into his existing book.

### (Disclaimer):

*The story presented represents a hypothetical situation based on The Bancorp's experience with advisors and their clients and possible Advisor Acquisition Program solutions. It is intended to illustrate different potential challenges and is not meant to guarantee that a client's needs or objectives will be met.*

## THE BANCORP ADVISOR ACQUISITION PROGRAM REQUIREMENTS

### Amount Financed/Transaction Financing

- Up to 90% financing.

### Guarantees

- Personal guarantees will be required of all individuals with an ownership interest of 20% or more.

### Valuation

- The Bancorp engages independent valuation firms with expertise in valuing financial service practices in order to produce the formal appraisals used to determine the value of the practice.

### Collateral

- A first position lien on business assets and the pledge of personal assets in some cases.

### Life Insurance

- Assignment of "Key Man" life insurance.

### Seller Financing

- Seller financing for a portion of the acquisition price is encouraged. The seller must relinquish all ownership at the time of sale and cannot be maintained as an employee but can be retained as a consultant.

### Seller Non-Compete and Transition at Sale

- Transitional consultation from the seller is permitted but may not exceed 12 months.
- A seller non-compete agreement is required.

