



## PREPARE YOUR BUSINESS FOR AN ACQUISITION

Here is a list of items that you can check off in your office that, if they're all addressed well, puts your **BUSINESS** in the READY position as an acquirer.

**Regularly maintain comprehensive and accurate books and records and KPI's.** It's crucial when preparing your business for an acquisition. Proper documentation helps instill confidence in lenders and provides a clear picture to everyone involved of your business's financial health, **INCLUDING YOU.** Here's a list of specific books and records to maintain:

**1. Financial Statements** - you should be able to generate these documents within 10 minutes if you're sitting in your office. Most advisors use QuickBooks or QuickBooks Online and you should have everything reconciled, month to month, or at least every quarter by your accountant and you should have these as deliverables at the ready.

- Balance Sheet: Showcasing assets, liabilities, and equity at a specific point in time.
- Income Statement (Profit and Loss Statement): Detailing revenue, expenses, and net income over a specific period.
- Cash Flow Statement: Tracking cash inflows and outflows from operating, investing, and financing activities.

**2. Tax Returns** – You need the tax returns for your business and for you personally at the ready, for the previous 3 years at a minimum. You should have final copies stored somewhere on a server or on your computer so that you can quickly pull up pdfs of your returns as deliverables.

- Include federal, state, and local tax returns, as applicable.

**3. Budgets and Forecasting** – This one is a little tougher, but if you operate from a budget, if you have 3 year forward looking cash-flows, if you're working your business from a business plan, this tells the world that you know the business side of financial advising. All of this can be generated in QuickBooks as well, and in the context of a business plan, you can look like a business champ.

- Provide detailed budgets you operate from during the year and financial projections for the business post-acquisition.

*Securities and advisory services offered through LPL Financial, a registered investment advisor, member FINRA/SIPC.  
Financial Resources Group Investment Services, member FINRA/SIPC, is a separate entity.*



**- Highlight key performance indicators (KPIs) and growth projections.**

- Assets Under Management (AUM): Total value of client assets being managed by the financial advisor.
- Revenue Growth Rate: Percentage increase in revenue over a specific period compared to the previous one.
- Client Retention Rate: Percentage of clients retained over a defined period, indicating client satisfaction and loyalty.
- Client Acquisition Rate: Number of new clients acquired during a specific period.
- Average Client Portfolio Size: Average value of assets held by each client.
- Client Lifetime Value (CLV): Total revenue generated by a client over their entire relationship with the advisor.
- Revenue per Client: Average revenue earned from each client.
- Return on Investment (ROI): The profitability of investments made on behalf of clients.
- Profit Margin: Percentage of revenue that represents profit after deducting expenses.
- Assets Lost Rate: Percentage of assets lost due to client attrition or market factors.
- Client Referral Rate: Percentage of new clients gained through referrals from existing clients.
- Net Cash Flow: The difference between cash inflows and outflows from client investments.
- Time to Respond to Inquiries: Average time taken to respond to client inquiries or requests.
- Client Reviews Conducted: Number of periodic portfolio reviews conducted for clients.
- Diversification Ratio: Measure of the diversification level of client portfolios.
- Risk-adjusted Returns: Measure of investment performance considering the level of risk taken.
- Ratio of New vs. Existing Clients: Proportion of new clients compared to existing clients.
- Client Satisfaction Score (CSAT): Feedback from clients on their satisfaction with the services provided.
- Compliance Rate: Percentage of client accounts compliant with regulations and standards.
- Client Education Seminars/Workshops: Number of educational events held for clients.
- Cross-selling Ratio: Percentage of clients who have purchased multiple financial products/services.
- Average Client Age: Average age of the financial advisor's client base.
- Social Media Engagement: Metrics related to engagement on social media platforms.
- Website Traffic: Number of visitors to the financial advisor's website.
- Lead Conversion Rate: Percentage of potential leads that become clients.
- Client Reviews/Testimonials: Number of positive reviews or testimonials received from clients.

*Securities and advisory services offered through LPL Financial, a registered investment advisor, member FINRA/SIPC.  
Financial Resources Group Investment Services, member FINRA/SIPC, is a separate entity.*



#### **4. Loan Documents**

- Maintain records of any existing loans, including terms, interest rates, and payment schedules.
- Include documents related to any outstanding debt, such as business loans, credit lines, loans from LPL and leases.

#### **5. Contracts and Agreements**

- Keep copies of all business contracts and agreements, including customer contracts, supplier agreements, and vendor contracts.
- Include terms, expiration dates, and any obligations.

#### **6. Financial Ratios and Metrics**

- Calculate and document important financial ratios, such as liquidity ratios, solvency ratios, and profitability ratios.
- Maintain a history of these ratios to demonstrate financial stability.

#### **7. Assets and Liabilities**

- Maintain an inventory of all physical assets owned by the business, including equipment, real estate, and inventory.
- Document outstanding liabilities, including accounts payable, loans, and other obligations.

#### **8. Receivables and Payables**

- Keep records of accounts receivable (outstanding customer payments) and accounts payable (unpaid bills to suppliers).

#### **9. Ownership Structure and Capitalization**

- Document the ownership structure of the business, including shares held by different stakeholders.
- Detail any capital contributions, investors, stock issuances, and changes in ownership.
- Provide a copy of your up-to-date operating agreement if you have one.

#### **10. Compliance Records**

- Maintain records of regulatory compliance, licenses, permits, and certifications.
- Document any regulatory inquiries, violations, or audits.

*Securities and advisory services offered through LPL Financial, a registered investment advisor, member FINRA/SIPC.  
Financial Resources Group Investment Services, member FINRA/SIPC, is a separate entity.*



### **11. Employee Records**

- Keep records of employee information, including payroll records, benefits, contracts, and organizational charts.

### **12. Historical Financial Data**

- Maintain historical financial data to demonstrate the business's performance and trends over time. Easy to pull if you're managing your KPI's.

### **13. Bank Statements and Transaction Records**

- Keep a record of bank statements and transaction records to verify cash flows and transactions.
- Much of this is kept online at your bank today, but their systems limit how far back you can go, usually 2 years. Also, if your bank is sold, you can run into trouble with access to older records. Pulling down the pdfs of your bank statements once a year and storing them on your server is a good business practice.

### **14. Insurance Policies**

- Maintain records of all insurance policies covering the business, including general liability, property, and employee benefits. Include any cross purchase or buy/sell insurance annual statements that relate to your operating agreement.

### **15. Legal Documentation**

- Maintain legal documentation related to any pending or historical legal cases, disputes, or legal agreements. Any FINRA actions or customer disputes require all documentation surrounding an incident. You will need to produce these documents in an acquisition, and also for registration purposes in states that you may be required to enter if the sale goes through.
- Maintain organizational legal documents such as Articles of Incorporation, operating agreements and what state you formed your business in.

### **16. Succession Documentation**

- A copy of your most recent, legally acceptable and outlined in your operating agreement succession plan, or a Practice Continuation Agreement that outlines your own succession.

### **17. Due Diligence Documentation**

- Keep a record of all documents gathered during the due diligence process, including financial, legal, and operational assessments of the target business.
- Keep a record of all documents delivered to any underwriters or the seller.

*Securities and advisory services offered through LPL Financial, a registered investment advisor, member FINRA/SIPC.  
Financial Resources Group Investment Services, member FINRA/SIPC, is a separate entity.*



## **18. Integration Plan and Cost Projections**

- Document your integration plan and projected costs, demonstrating your strategy for a successful acquisition. Typically, if you're using lender capital, they will perform this analysis. They want to see what your business looks like, what the seller's business looks like, and what the combination of the two looks like if they come together. They want to answer the question, "If we lend this money to buy this business, what debt load can we feel comfortable with for the acquirer." Ask for a copy of this.

## **19. Maintain a Copy of Your Most Recent Valuation on Your Practice**

- If an acquisition comes up in your neck of the woods, you need your business valued by a third party. This process can take 2-3 months, meaning that if you don't maintain regular valuations, (once every two years), you won't be able to provide a critical piece of information to sellers and lenders in a timely fashion.

Having these books and records organized, maintained and readily available will not only facilitate the underwriting process for financing should the need arise, but also help you make informed decisions during the acquisition and integration process. You have to know your business and what it looks like to an outsider. They just look at the facts. Positive growth trajectories, you're paying your taxes, you're squared away legally, you know your own business' metrics and you're a good record-keeper. That's all they want to see, from both you and from the seller. Ultimately, you WILL get to an accurate picture of what your business, the seller's business and what the combined business looks like together, so keeping this info up to date is step 1. And generally, it's a good **business** practice.

*Securities and advisory services offered through LPL Financial, a registered investment advisor, member FINRA/SIPC.  
Financial Resources Group Investment Services, member FINRA/SIPC, is a separate entity.*