



Buyer's Due Diligence Checklist

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8 Areas to Focus on When Conducting Due Diligence

The due diligence stage begins once the buyer has signed the Non-Disclosure Agreement (NDA). During this stage the buyer performs a thorough review of the seller's historical financials, client accounts, and deal structure. This checklist was created to assist buyers when assessing a potential book of business for purchase or merger.

1. Understanding the Company Structure

- What is the entity structure and who are the owners? Does the principal actually own the client list?
- What does the broker/dealer relationship look like? Is the firm its own RIA, or do they outsource? Where are assets custodied?
- What types of products and services are offered?
- What types of clients does the business serve? Does the business pursue any special market niches?
- What types of technology services are offered? Does the firm utilize paperless features? Do they employ a standard customer relationship management (CRM) system, trading tools, etc.?
- Does the firm utilize a full social media suite?
- How many years has the company operated?
- How many employees are there and how many will continue on with the firm after the sale?
- Are there any special legacy arrangements or liabilities that will follow the company?

2. Revenues

- Review the past three years of revenue history and the source of those revenue streams. How much of the revenue is recurring and how many of the assets are under surrender period? What is the product mix? What is the revenue by product (e.g. Life, Annuity, P&C, and Planning)?
- What is the amount of assets under management (AUM) of the business by product type? Can the seller explain where the change in AUM came from over the last year (e.g., market growth, new clients, attrition, deepened relationships with existing clients)?
- How strong are referrals? Are customers actively promoting the business?

3. Expenses

- What are the if applicable general and administrative expenses?
- What does the payout structure look like at the broker/dealer? Are there any customized pricing relationships?
- What does the bonus and incentive structure look like to the seller?
- What are the run-rate expenses for the firm? In other words, how much will it cost to keep the lights on?
- Are there any costs being run through the business that are not essential to keeping it up and running? Does the seller utilize the firm for any personal expenses?

4. Clients

- What are the average client ages? How many assets sit within each age bracket?
- Has the seller segmented the client base?
- Who are the most valued customers to the firm?
- What is the return on assets (ROA) by client? Are there opportunities to expand?
- How many clients are in the accumulation phase versus distribution? How significant are required minimum distributions (RMDs) to some of the most significant clients?
- What is the average client tenure?
- Does the firm currently offer intergenerational planning? If so, what percent of the assets are currently under this program?
- Where are the clients located?

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5. Business Management

- How is time allocated in your practice?
- How do you predominantly engage with clients?
- Where does the seller primarily meet with his or her clients?
- Is there a continuity or succession plan currently established?
- Does the firm currently outsource any core functions?

6. Risks

- What are the potential liabilities within the practice, if any?
- Does the seller have any compliance records they should report?
- Have the client accounts been handled and managed with the appropriate amount of care?
- Is there any pending litigation or risk of such action in the future?
- Does the seller have appropriate errors and omissions (E&O) insurance coverage? Does the policy cover events after the seller resigns?
- Are there any clients who have expressed a desire to work with another advisor after the seller's retirement?
- Does the buyer have appropriate records for all accounts going back six years?

7. Opportunities

- What opportunities has the seller been pursuing? Where do they see areas of improvement in the business?
- Have they actively been pursuing growth in existing sales channels?
- Have any clients expressed interest or concern in moving from one product mix to another?
- Has the seller been managing the existing business rather than growing it?

- Are there any opportunities to transition certain nonrecurring revenue sources into advisory platforms or annuitized streams?
- Is the ROA on the book low relative to its opportunity set?
- Are there any strategic relationships that could be better served, improved, or expanded upon?
- Are there any duplicative expenses that could be cut to find true business synergies?
- Have you established a good integration plan? Are there key employees who will be needed to transition the business?

8. Deal Structure

- What are the buyer's and seller's goals?
- Is the seller "educated" on the sales process? Do they understand standard market multiples and what it actually means to sell one's business?
- What is the seller's perceived ongoing involvement? Is he or she looking for an opportunity to sell and then remain as a salaried or commission-based employee?
- Has the business been valued? Have the numbers going into the valuation been audited or verified?
- If a valuation has been performed, how recent was it?
- Does the down payment and total price reflect the balance of risk in the transaction?
- What funding sources are available for the down payment?
- What is a reasonable risk adjusted return on your capital? Can similar returns be made through organic growth means?
- What will be the net cash flow after tax and debt service arrangements? Is there sufficient room for debt servicing in the event of a bear market or client attrition?
- Have you prepared a list of local legal and tax experts to help with the transaction?