

THE WEALTH INDUSTRY

Creating A Closer Connection

Firms are partnering with their advisors to help mid-market business owner clients retire.

In addition to managing their liquid investments, many regional firms are encouraging advisors to think about a major illiquid asset as well: their clients' business.

Broker-dealers such as Hilliard Lyons in Louisville, Ky., are nurturing a partnership between their advisory and investment banking divisions with the hope of capturing an emerging business opportunity. As the baby boomer generation retires and middle-market companies stabilize since the 2008 financial crisis, 70 percent of the 12 million privately held businesses are expected to change hands in the next decade, according to a 2006 article, "The Ten Trillion Dollar Question: A Philanthropic Gameplan," by Cornell University economist Robert Avery.

"Businesses owned by boomers are going to undergo some change of ownership as we move through this generation," S. Andrew McKay, director of investment banking at Hilliard Lyons, says. "We saw it as a big opportunity for the firm; not just for us, but for our financial consultants as a way [for them] to provide a more comprehensive advisory service to clients and to extend assets that they're currently not managing."

It is a good time to go to market, according to Kerri Edwards, vice president of investment banking at Raymond James. Many business owners hit hard in 2008 are just now starting to feel comfortable considering a sale again, and private equity firms have approximately \$384 billion to invest as of the third quarter of 2012, according to Edwards. Raymond James has had three deals since its fiscal year began on Oct. 1, with four more in the pipeline. By contrast, the firm had less than six combined Private Client/



John T. Sweeney

Investment Banking deals per year since 2008, following a pace of about a dozen per year before that.

"They are realizing this is the time," Edwards says. "Those who were trying to survive are coming out stronger and ready now to revisit the sale event."

Regional financial advisors are aiming to build stronger connections with middle-market clients and become stronger contenders for those deals. Many of the smaller operations will be ripe for sale in the coming years as 30% of family-owned companies will experience a change in leadership over

the next five years, according to the Family Business Forum at UNC-Asheville, and regional broker-dealers are generally looking in that \$25 million to \$250 million range. Two-thirds of Raymond James' transaction business is below the \$50 million dollar mark, according to Edwards, a sweet spot that includes local business opportunities that may be below wirehouse minimums.

"We have a middle-market orientation, so we're working with mid-sized businesses and on the private side that could mean a business as small as \$30 million in value," Edwards says. "For financial advisors affiliated with Raymond James versus a Morgan Stanley or Merrill Lynch, it's more likely they have the opportunity to partner with us."

The introduction between the investment banking and advisory worlds is well underway. Edwards regularly speaks and visits with advisors to educate them about how the investment banking division can help clients. To inspire them to be on the lookout, she often quotes the statistic that eight million business owners are expected to retire in the next 10 years.

“While many of our advisors have not encountered a business succession plan in the past, you have a huge population of baby boomers who own business assets who will be in need of that kind of assistance,” Edwards says.

At Hilliard Lyons, McKay and his partner, senior investment banker John Sweeney, went to visit 55 of Hilliard’s 72 offices to educate advisors about business exit planning and to offer a two-hour training program for advisors. As an added bonus, advisors who attend receive some increased fees for any business they bring to the investment banking side.

“We thought it was an excellent asset gathering tool and wanted to equip financial consultants with the knowledge and expertise to engage their clients on a discussion of the subject,” McKay says.

For Edwards, that discussion can be as simple as asking a client, “How’s business?” she says. She has four core suggestions and questions: know your clients and understand their businesses; ask them what they estimate their value of their businesses to be; ask who the owner(s) are; and ask what their succession plans are, an internal or external transfer and its timing.

“That simple set of questions will give them good insight into the business and the owner’s plans for the business,” Edwards says. “[They can] position the capability; ‘I may have someone you can talk to about the sale of your business.’”

In addition to being educational, visits from the investment banking division are designed to help earn advisors’ trust. Referring a large client or sharing that relationship can be a difficult first step.

“In many cases these are going to be their most important client relationships,” Edwards says. “It’s important that we demonstrate knowledge and professionalism and treat the advisor as our partner.”

The division of labor is crucial throughout the process. Both firms keep their advisors involved and update them on relevant information as the talks proceed so that they can help with the relationship side of the transaction.

“It wasn’t, ‘Here’s just a referral and you don’t need to know anything. It was the opposite of that,’” Bill Boehmler, a financial consultant and senior vice president at Hilliard Lyons, says. “That’s every financial consultant’s fear. They don’t want to ruin their relationship with a client that they refer to another division.”

Having a close advisor-client relationship can also be especially useful when emotions crop up in the deal process. When Raymond James helped a client sell a propane distribution company in the Florida panhandle, the advisor played a key role in reassuring the client, who was second guessing giving up the business.

“Then came the task of helping the client to live off of the proceeds from a sale, which can be the hardest part,” Edwards says.

It can, however, be the most rewarding. Raymond James has paid out over \$700,000 in referral bonuses to advisors in the last three deals of the year.

“That’s a huge opportunity for the financial advisor,” Edwards says. “Not only did our financial advisors have referral fees for partnering with us, but more importantly they helped clients with their most important assets and are now helping them live off those proceeds as they move into retirement.”

It can also result in new client referrals. At the end of last year, Boehmler of Hilliard Lyons helped the owner of a large company sell his business and ended up bringing the sitting chief executive of the company on as a client as well. **OWS**



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