

2024

M&A LENDING REPORT

Executive Summary

Unlocking Growth and Seamless Transitions

PPC LOAN stands at the forefront as a leading provider of conventional (non-SBA) cash-flow-based loan solutions, serving independent financial advisors and RIAs across the nation. With a legacy spanning 25 years, PPC LOAN has built a reputation for offering the most attractive financing options for acquisitions, mergers, buy-ins/ equity purchases, phased succession plans, and business debt refinancing, among other strategic endeavors. As the landscape of advisor M&A continues to evolve, PPC LOAN remains committed to expanding and refining our Growth Loan and NextGen Loan offerings, tailored to facilitate inorganic growth and succession planning.

Our journey of more than a decade, working alongside financial advisors of varying sizes and profiles, has provided us with a unique vantage point within the M&A marketplace. We believe that these invaluable insights should be shared, fostering awareness and transparency across the industry. It is with immense pride that PPC LOAN introduces our inaugural M&A Lending Report. This report is designed to provide a new perspective on transactions often overshadowed by headlines featuring large national firms. Instead, our focus is on serving and enlightening the broader advisor community, particularly small business owners seeking to expand or transition their firms.

The 2024 M&A Lending Report by PPC LOAN offers a comprehensive assessment of how advisors and firms are leveraging traditional debt in their quest for inorganic growth and succession planning using PPC LOAN's Growth and NextGen Loans. We envision this report as an invaluable compass, guiding financial advisors towards insightful strategic decisions that will sculpt the trajectory of their firms. Within the pages of the M&A Lending Report, we underscore important metrics surrounding those loans funded in 2023 in support of advisors and firms of all sizes.

As a trusted partner in the financial services industry, PPC LOAN remains steadfast in our commitment to supporting independent investment advisors and firms as a long-term capital partner. Our expertise extends beyond the mere consideration of financing terms as PPC LOAN helps evaluate the intricacies of each transaction including deal structures, valuations, claw-back provisions, etc. By adopting a thoughtful and strategic approach while exploring diverse financing avenues, advisors can significantly enhance their chances of success in a fiercely competitive M&A market. At PPC LOAN, we understand that each transaction is unique, and our commitment lies in equipping advisors with the insights and support needed to navigate this dynamic landscape successfully.



Dustin Mangone

Managing Partner

Director of Investment Advisor Services



PPC Financing Overview

M&A AND SUCCESSION IN 2023

Our suite of lending products for advisors is categorized into two strategic offerings: **Growth Loans** and **NextGen Loans**. **Growth Loans** are designed to provide financial support for both complete and partial acquisitions of clients or firms, empowering advisors to strategically expand their businesses. **NextGen Loans** are tailored to facilitate the financing of ownership interest transactions internally, encompassing buy-ins, buy-outs, and equity purchases. This classification ensures that our lending solutions cater precisely to the nuanced needs of advisors engaged in diverse acquisition and ownership scenarios.

■ SCOPE & SCALE:

Purchase Price Range	\$180,000 - \$21,225,000
Firm Size Range (By AUM)	\$10MM - \$6.3B
Firm Size Median	\$130,000,000

■ PURCHASE PRICE MULTIPLES:

	Range	Average
Gross Revenue	1.37 - 4.29	2.48
Recurring Revenue	1.43 - 4.64	2.73

■ DEAL STRUCTURE

Deals w/ 100% Financing	59%
Deals w/ a Seller Note or Earn Out	29%
Average Seller Note Term:	67 Months
Deals w/ a Cash Injection	29%
Deals w/ Mitigation Components	31%
Avg Holdback/Escrow %	35 - 40%
Average Holdback Duration	12 Months

Growth Loans

61%

NextGen Loans

39%

Key Insights

PPC Financing Overview

2023 proved to be a challenging year for those who are active in advisory M&A. With markets starting off the year lower on the heels of 2022, inflation, and rising interest rates, there did not seem to be a lot of factors helping drive an active M&A market. However, the advisory industry has again shown its resilience in the face of adversity. Advisors have demonstrated their ability to get creative with deal structures to allow buyers and sellers to find middle ground amidst the turbulence. Buyers have become even more cognizant of an acquisition's impact on cash flow and have been implementing various techniques to reduce cash flow strain during tumultuous times. Sellers, on the other hand, have been more open to transactions that involve performance requirements when selling to capture potential upside if markets rebound and revenue returns to historical highs.

The data represented in the overview encompasses both Growth & NextGen Loans providing an overall view of the loans funded in 2023. PPC LOAN has set loan limits on the lower end of what's typically offered to the market. Therefore, the purchase prices for those transactions we supported ranged from \$180k on the low end and reached upwards of \$21MM for the largest transaction covering books of business w/ less than \$50MM in AUM to firms more than \$6B in AUM.

As a multiple of revenues, prices have seen a wide range which were ultimately impacted by several factors, but most importantly the size of the firm being purchased/transitioned, the type of loan need, and whether the seller leveraged external representation. For acquisitions, those sellers working with a third-party in support of their transition, internally or externally, were able to extract more monetary value pushing multiples as high as 4x revenue in a few rare cases. Alternatively, it is not uncommon for some buyers and sellers to have a pre-existing relationship where the seller will forego taking their practice to market. This scenario has typically resulted in transactions that yield favorable results for all parties, but the multiple's paid trend to the averages rather than the highs.

Furthermore, only 59% of the funded loans encompassed 100% financing, marking a decline compared to previous years. One of the key culprits impacting this metric was a surge in seller financing in 2023 that was less prevalent in prior years. With market interest rates reaching levels not witnessed since before the financial crisis, many sellers opted to forgo more cash paid out over a shorter period (i.e., 12 – 24 months) in favor of a longer-term annuity stream through a seller note. In 2023, seller financing often featured below-market interest rates and an average term of approximately 5.5 years. With the potential for rate cuts in the coming years, we don't expect this trend to continue, and we will likely see 100% financing grow as a percentage of our total loans funded on an annual basis.

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FULL OR PARTIAL ACQUISITIONS FINANCED BY PPC LOAN IN 2023

Growth Loans are designed to provide financial support for both complete and partial acquisitions of clients or firms, empowering advisors to strategically expand their businesses.

■ SCOPE & SCALE:

Purchase Price Range	\$180,000 - \$21,225,000
Firm Size Range (By AUM) - Buyer	\$10MM - \$448MM
Firm Size Range (By AUM) - Seller	\$10MM - \$6.3B
Firm Size Median	\$103,000,000

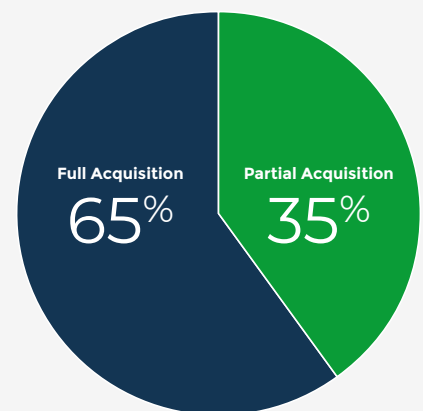
■ PURCHASE PRICE MULTIPLES:

	Range	Average
Gross Revenue	1.41 - 4.29	2.54
Recurring Revenue	1.48 - 4.64	2.81

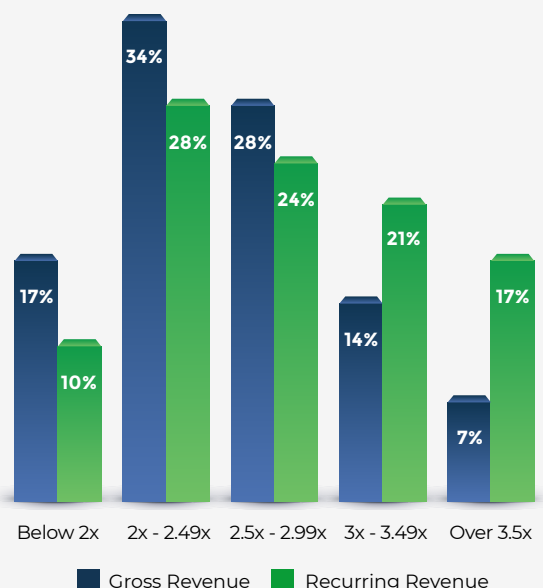
■ DEAL STRUCTURE:

Deals with 100% Financing:	63%
Deals with a Seller Note or Earn-Out:	23%
Average Seller Note Term:	51 Months
Deals with a Cash Injection:	27%
Deals with Mitigation Components:	52%
Average Holdback/Escrow %:	35 - 40%
Average Holdback Duration:	12 Months
Average Attrition Allowance:	12%
Average Duration of Seller Transition:	11 Months

GROWTH LOANS BREAKDOWN



REVENUE MULTIPLE DISBURSEMENT



Key Insights

Growth Loans™

Inorganic growth continues to be a strategic objective for advisory firms, particularly those with previous M&A experience. This includes a healthy mix of complete acquisitions and partial book purchases as outlined in PPC LOAN's data. Despite facing sustained price multiples at historical highs, coupled with heightened capital costs and escalating buyer competition, the M&A market continues to show no signs of slowing down. When assessing PPC's Growth Loans, those advisors and firms primarily opting for debt as a capital solution generally operate with AUM below \$1 billion given the scarcity of private capital options for smaller firms. These firms are inclined to rely more heavily on traditional debt to fuel growth beyond \$1 billion in AUM to optimize their valuation prior to considering a private equity partner.

There are several notable points that can be drawn from the data for the Growth Loans funded through PPC LOAN in 2023. First, let's touch on purchase prices as a multiple of revenue. When looking at total gross revenue, we saw an average multiple of 2.54 while the average multiple when only looking at recurring revenue was 2.81. Given that PPC LOAN works with RIAs and advisors within broker-dealers, there is a variety of recurring and transactional revenue sources incorporated into these averages. It is also worth noting that PPC LOAN reports this data as a multiple of gross revenue which we define as revenue before any overrides or expenses deducted by a broker-dealer, OSJ, TAMP, RIA, etc. We view the overrides as an expense of operating your practice instead of a direct reduction of an advisor's production. Additionally, we believe that this provides the most accurate comparison among the different affiliation models for advisors.

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Another metric that is worth highlighting is that only 52% of Growth Loan transactions had mitigation components as part of the purchase (i.e., a predetermined attrition allowance on assets under management, revenue, or number of clients). To understand why this is, we must recall that Growth Loans can be broken down into two separate categories, acquisitions, and partial book purchases. The average is a combination of full acquisitions and partial purchases but when we break it down further, 70% of acquisitions included a mitigation component while 18% of partial book purchases included one. The primary driver behind the significant variance boils down to one thing; relationships. Nearly all partial book purchases were completed by buyers who already worked with the clients being purchased (i.e., an employee advisor who is buying their book of business from their employer and becoming independent). In transactions like this, buyers often are not concerned with attrition because they are already the servicing advisor for these clients and likely have little to no relationship with anyone else at the selling firm. As such, it's almost a forgone conclusion that the clients will remain with the advisor through the purchase. For a typical acquisition in which one firm is buying another, there is little or no pre-existing relationship between the buyer's firm and the seller's clients. As such, nearly all these acquisitions will include a mitigation component to ensure that the relationships that are being purchased are successfully moved to the buyer during the transition period.

NextGen Loans™

BUY-INS, BUY-OUTS, OR EQUITY PURCHASES FINANCED BY PPC LOAN IN 2023

NextGen Loans are designed to facilitate internal succession plans encompassing buy-ins, buy-outs, and equity purchases, which have emerged as highly advantageous transactions for sellers, successors, and clients. Please note that buy-ins apply to purchasers acquiring equity/shares for the first time, equity purchases apply to those existing equity owners who are buying additional equity/shares and buy-outs apply to a current owner selling 100% of the equity/shares they own.

■ SCOPE & SCALE:

Purchase Price Range	\$475,000 - \$4,000,000
Firm Size Range (By AUM)	\$67MM - \$712MM
Firm Size Median	\$234,000,000

■ PURCHASE PRICE MULTIPLES:

	Range	Average
Gross Revenue	1.37 - 3.30	2.43
Recurring Revenue	1.43 - 3.34	2.61

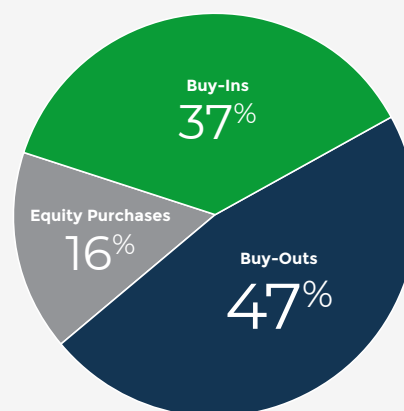
■ BORROWER EXPERIENCE:

Borrower Average Years of Experience	16
Borrower Average Years at Firm	11.5

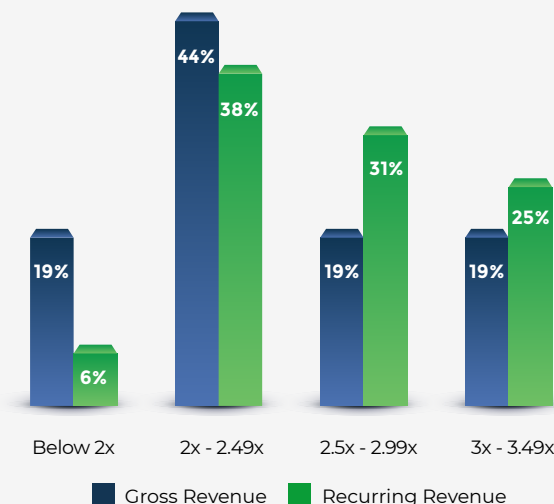
■ DEAL STRUCTURE:

Deals with 100% Financing:	55%
Deals with a Seller Note or Earn-Out:	40%
Deals with a Cash Injection:	25%
Average Equity Purchased/Sold:	34%
Buy-Ins/Equity Purchases	20%
Buy-Outs	58%
Median Equity Purchased:	20%

NEXTGEN LOANS BREAKDOWN



REVENUE MULTIPLE DISBURSEMENT



Key Insights

NextGen Loans™

Internal succession planning has become increasingly favored among advisory firms due to its inherent flexibility and versatility. For both buyers and sellers, this strategy facilitates a gradual transition over time, easing them into or out of ownership responsibilities within the firm. Moreover, it allows transitions to unfold in tranches, enabling selling advisors to optimize the value of shares sold at each interval. From the clients' perspective, these transitions are seamlessly integrated, ensuring minimal disruption to their expectations, experience, investment accounts, and other crucial aspects of their relationship with the firm.

Internal succession planning extends beyond facilitating the retirement of founding partners or owners exiting the business. PPC LOAN has observed numerous firms leveraging internal succession strategies to foster growth, retain key employees, and ensure long-term business continuity, thereby maximizing enterprise value. As a firm expands beyond the capacity for one owner to manage effectively, introducing a new owner can inject fresh ideas and valuable skill sets into the leadership. Moreover, offering equity to key employees serves as a potent retention tool, particularly amid industry talent shortages, fostering loyalty and commitment. According to the data, the opportunity to acquire ownership is not simply given, but earned over time. On average, buyers spent 11.5 years at their firm before making their first equity purchase, and they had an average of 16 years of industry experience.

The data also reflects distinct trends when comparing Growth Loans to NextGen Loans. Notably, the median firm size securing a NextGen Loan stood at \$234 million in AUM, significantly higher than the median firm size involved in acquisitions or sales under our Growth Loan program, which averaged less than half at \$103 million in AUM. As expected, larger more established organizations are strategically leveraging internal succession planning while smaller firms that lack NextGen talent are forced to sell externally.

In 2023, a noteworthy statistic emerged: only 55% of deals involved 100% financing, a departure from historical trends observed by PPC LOAN. The increase in interest rates led to a rise in seller financing and cash injections, deviating from past practices. However, it's important to highlight that all transactions classified as buy-ins or first-time equity purchases were fully financed, with buyers making no cash contributions. This financing option proves advantageous for first-time buyers who typically lack the ability to provide substantial cash injections.

Lastly, the average purchase price multiple for NextGen Loans remained lower than that of Growth Loans, for obvious reasons. This can be attributed to heightened competition among acquirers for acquisition opportunities, compounded by founders frequently offering discounts when selling equity internally through NextGen Loans. While selling internally may result in a lower sales multiple vs an external sale, adopting a phased approach involving selling in tranches can maximize the value received by a seller over time. It's common to observe stronger organic growth rates for firms with a clear path for career advancement, as employees and new owners are significantly more motivated. As the firm grows and becomes more valuable, the seller will realize better prices for those shares at each tranche sold, thus optimizing their overall return on investment.

Internal succession planning extends beyond facilitating the retirement of founding partners or owners exiting the business. PPC LOAN has observed numerous firms leveraging internal succession strategies to foster growth, retain key employees, and ensure long-term business continuity, thereby maximizing enterprise value.

Market Expectations for 2024

The advisor M&A market confronted a multitude of challenges in 2023, including inflation, rising interest rates, geopolitical risks, amongst others. Despite these obstacles, the M&A market remained resilient as well-positioned firms were able to access capital and drive transactions to the finish line while novice buyers were more often on the sidelines.

The consolidation trend in 2023 is expected to continue into 2024 as more enterprise-oriented buyers increasingly seek to acquire and integrate smaller practices. Although supply and demand for practice acquisitions is still tilted towards sellers with demand heavily outweighing supply, we expect a neutral to slight increase in sellers entering the market in 2024. This will likely be driven by the continually aging advisor force and more options than ever for sellers to divest their business on their own terms.

For sellers contemplating their next steps, the landscape offers a myriad of possibilities. Whether desiring to sell and continue working for a few more years, retire immediately, or gradually phase into retirement, there are tailored solutions available. The “sell-and-stay” model, wherein sellers continue working post-transaction for a designated period, has gained popularity among large and active acquirers. Moreover, for those with a longer time horizon, selling tranches of equity to key staff members presents an effective strategy for transitioning into retirement at a comfortable pace. These diverse options, coupled with persistently healthy practice valuation figures, create a highly favorable selling environment.

In 2024, PPC LOAN remains committed to providing flexible financing options and personalized support to help buyers achieve their M&A and succession planning objectives. Both buyers and sellers are advised to evaluate all quantitative and qualitative components of a transaction and seek expert guidance to navigate this complex landscape effectively. With a strategic focus, stakeholders can capitalize on the many opportunities presented by the evolving advisor M&A market.

About PPC LOAN:

PPC LOAN is one of the nation's leading sources of conventional (non-SBA) cashflow-based financing for Independent Investment Advisors and RIAs. For the past 25 years, we have consistently provided the most attractive financing programs for acquisitions, mergers, partnership buy-ins and buy-outs, equity purchases, succession plans, and business debt refinances/consolidations. Dedicated to your ongoing success, PPC LOAN is a relationship lender that serves as a long-term capital partner to advisors. Put our knowledgeable and experienced staff to work for you and experience the difference!



Growth Loans™

**FIND A BUSINESS ACQUISITION
LOAN DESIGNED TO SUPPORT
YOUR FIRM'S GROWTH.**



NextGen Loans™

**SECURE EQUITY FUNDING TO
ENHANCE YOUR STAKE
IN THE FIRM.**



RefiLoans™

**PROTECT YOUR FIRM'S CASH FLOW
WITH DEBT RESTRUCTURING AND
REFINANCING OPTIONS.**