

Succession Planning Essentials



99% of independent financial services and advisory practices go out of business when their founder retires*



32% of advisors claim to have a succession plan



17% of advisors have a binding agreement

The Most Common Succession Paths

An outright sale to a third party, usually another independent advisor or team practice.

An internal buyout by one or more team or family members that goes into effect immediately or gradually based on an agreed-upon timeframe.

Teaming up with an outside advisor who acquires portions of your book over time until a buyout is complete.

Valuing Your Company

Most advisors calculate the value of their firm anywhere between **1** and **4** times the last **12 months' revenue**, with **2** times the most common approach.

1, 2, 3, or 4 x 12 months' revenue



CURRENT PROFITABILITY

The amount of money left after all compensation, overhead expenses, and debt are paid.



PROFIT GROWTH

The level of client turnover, ability to acquire new clients, growth potential of current client assets.



OTHER ASSETS

Tangible assets like building ownership, laptops, and other office equipment can increase the value of a firm.

Other factors impacting value

THE TYPICAL STRUCTURE OF A SALE

a down payment, usually **one-third** of the purchase price

with the balance financed over the next **three to six years**

an earnout provision paying a **percentage of profits** over a defined time may be included



20% of advisors have an executable continuity plan.*

Beyond succession planning : Have a Continuity Plan

Even if you have no immediate plans to retire, plans should be in place in case some unplanned event leaves you unable to run your advisory firm. **This is necessary for the protection of your clients, employees, and family members.**

Find a Continuity Partner

Choose an advisor who is compatible with your firm and has all the licenses and designations to work with the entire book of business.

Include a Time Frame

Draw up an agreement with your continuity partner, including a duration of time for each set of circumstances.

Inform Your Network

Communicate your continuity plan (and/or succession plan) to your broker/dealer, team, clients, family members, and all key personnel.

For additional resources, click here or visit <http://response.eliteadvisorgrowth.com/succession>.

The Biggest Mistake Sellers and Buyers Make is Not Working Together

Creating a smooth transition for your clients should be a top concern until the process is complete. Expect to:

1 Meet with each client and your buyer at least once, more typically twice, over the 6- to 12-month period around the time of the sale.

2 Provide more contact or special handling with top clients or when there are fears of client attrition.

3 Be more involved if your buyer is fairly new to the industry or they have significant differences in investment philosophy and service model.

*SEI/FP Transitions Advisor Poll on Succession Planning, April 2014

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