



5440 Corporate Drive, Suite 205
Troy, Michigan 48098
P: 248.328.4100
E: info@advisorlegacy.com



PASSING THE TORCH

A Guide On Internal Successions

THE VALUE PROPOSITION

Internal successions create a true “win-win” scenario for both generations of advisors and their clients. Here’s how:



GROWTH

- Having skin in the game motivates Nextgen advisors to bring in new clients/opportunities to increase revenue.
- They generally attract a younger client base, lowering the average client age and supporting multi-generational planning efforts with existing clients. Client age is a significant factor of practice value.



DEVELOPMENT

- Owning and leading a practice require different skills and experience from that of a servicing advisor.
- Phased internal successions allow the Nextgen advisor to learn the responsibilities of ownership over an extended period (usually several years), with the founder as mentor.



AFFORDABILITY

- Its difficult to secure third-party financing without equity/credit.
- Internal successions are facilitated in tranches, letting the Nextgen advisor build borrowing power while building trust with the lender.
- More specialty lenders have entered the market with solutions for Nextgen equity loans.



CONTINUITY

- Many generational practices have adopted a co-servicing approach to clients, building trust and familiarity with the successor before the founder leaves.
- Because these transitions happen over an extended period, maintaining the brand, staff and location (the pillars of client continuity), they have little impact on the clients.

THE FOUNDER’S LEGACY

Generational transitions allow the founder to create a true legacy. Legacy is an often overlooked but significant part of the value proposition of internal successions. Different than an external sale, the practice brand created by the founder is maintained through the successor they have trained and mentored, The practice will continue to service generations of clients and thrive long after the founders exit, ensuring their legacy lives on.

According to a recent report

from PPC LOAN, phased internal successions create significant growth and value for the practice. The report was compiled from hundreds of NextGen deals facilitated across the industry.

To the right are the average increases in key metrics between the initial tranche and the final tranche.

Source:

[Creating A Path To Ownership](#)

Increase In
AUM

120%

Increase In
Revenue

88%

Increase In
Value

88%

FAMILY TIES

A Case Study

It is the dream of many advisors to have one of their children take over the practice when they retire.

The opportunity recently presented itself to one of our clients. Over many years, he had built a successful boutique practice but didn't have an internal successor he could pass his legacy on to. The daughter was well on her way to building a successful career as an attorney and initially didn't show any interest in changing careers.

Despite being on different paths, their dialog deepened and a mutual interest in keeping the practice in the family peaked. With that it was decided the daughter would continue her father's legacy and transition to a career in financial advising.

How We Helped

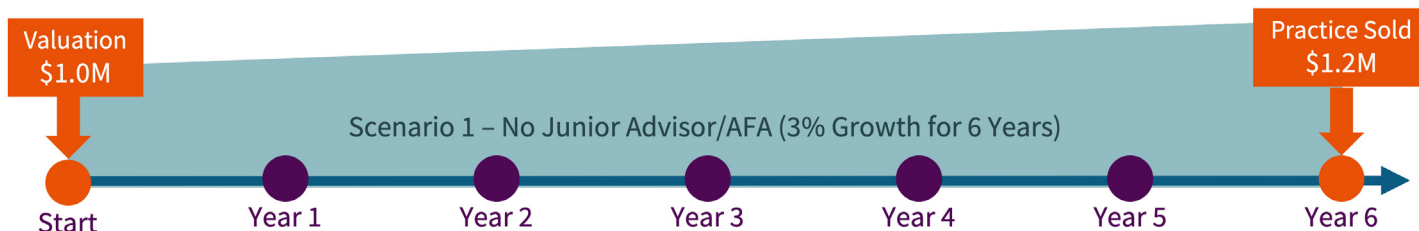
The father-daughter duo engaged us through our Turnkey Nextgen Deal Support service in order to devise a plan for a successful transition. This case utilized some special features of our service, namely our earnings modeling and additional transition support. Like many transitions, changing management and leadership styles can become a significant hurdle during the hand off, especially in family practices. Which is why we baked in additional transitioning coaching for Nextgen deals.

The succession plan is for the father to sell his equity via a 5-year earn-out, while remaining in the practice and mentoring his daughter on the ins and outs of being an advisor and running a practice. We will also provide continued coaching. Which is why we provide additional coaching through the transition, ensuring the family and the practice.

EXTERNAL SUCCESSION

Growth Stagnates, Along With Value

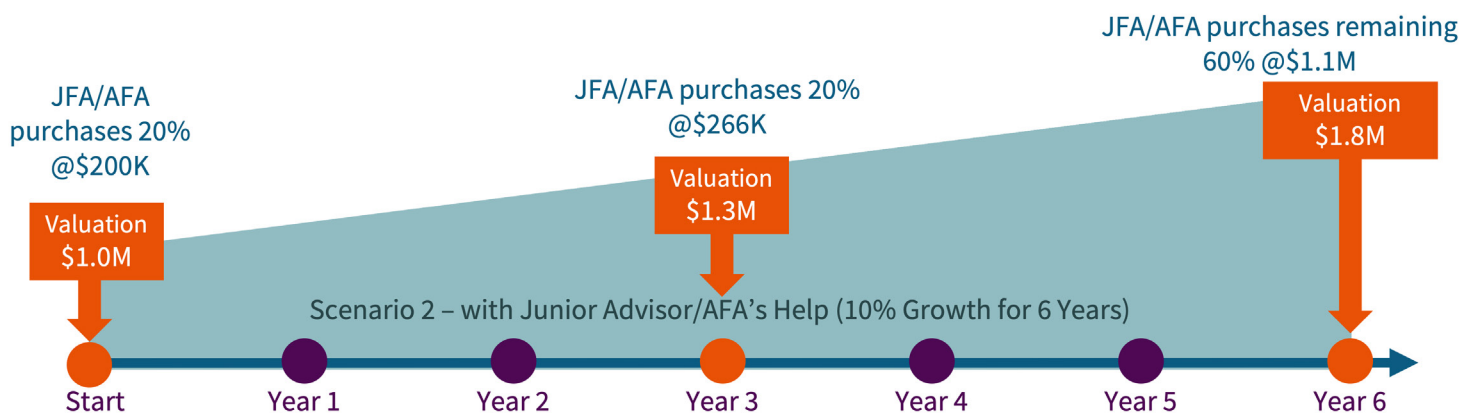
Without a successor or growth plan in place, the key drivers that impact practice value tend to stagnate or decline in the last five years of a founding advisors tenure. This is because the founding advisor often stops growing the practice and “cruises” until they are ready to sell.



INTERNAL SUCCESSION

Growth Rate Increases Along With Value

In an internal succession, the AFA is motivated to grow the practice and engage in other behaviors that positively influence the drivers of practice value. This results in a greater increase in practice value versus an external sale



READINESS ASSESSMENT CHECKLIST

To determine if its time to move forward with an internal succession, both the founder and the Nextgen advisor must assess if they are truly ready to commit to the process.

FOUNDER

- Does the practice Founder (FA) place a significant value on creating a legacy business as part of their succession plan?
- Is the FA ready to mentor the next generation of leadership in the practice and trust the Associate Financial Advisor's (AFA) ability to fulfill that role over time?

ASSOCIATE ADVISOR

- Does the AFA have a meaningful long-term goal of becoming a business owner?
- Is the AFA willing to secure significant funding to purchase equity in the practice (usually completed in tranches of equity)
- Is the AFA committed to remaining in the area of the practice as a long-term individual or family goal?
- Is the AFA's transition to ownership supported by and not in conflict with the goals of the AFA's spouse and family?
- Does the AFA currently have the ability to contribute to growing the practice (rainmaker) or the strong willingness and aptitude to be coached?
- Does the AFA currently have the ability to contribute to providing leadership to the practice or the strong willingness and aptitude to be coached?

BOTH ADVISORS

- Do both advisors see the value in removing silos of interest in the practice and operating as a cohesive team?
- Do both advisors understand that the internal multi-year transition of the practice normally results in forming a partnership, which requires a higher level of management via a formal business entity and partnership operating agreement?
- Do both advisors have the same level of interest/desire in pursuing this path?

The desire to go down the NextGen transition path must be meaningful and mutual. No one party can want it more than the other. Both must be committed to the process and have the skills or ability to develop the skills to serve in their new roles.

BEST LAID PLANS

A Case Study

Even with due diligence and help from an experienced consultant, things don't always go according to plan.

While most internal transitions in our industry are characterized by both parties as very successful, it is fair to share a case that didn't go as planned. This practice has been a coaching and valuation client of our firm for many years. Recently they contacted us to establish an equity arrangement for a long-tenured associate advisor, with the goal that the associate advisor would eventually take over the practice.

We worked with the two advisors to negotiate a deal, beginning with an initial tranche sale of 30% that formally established a partnership between the founding advisor and their successor. Unfortunately, in less than a year the founder informed us of a change in plans.

After a few months in the owner's seat, the NextGen advisor realized that he didn't like the responsibilities of ownership and preferred to go back to being an employee.

The founder is now working through options with us for unwinding the existing deal and developing an alternative transition plan.

While the founder and NextGen advisor had a long-term plan for the transition and followed the appropriate steps, the NextGen advisor had not prepared emotionally for the transition to ownership. Although this is a challenging and rare situation, the founder has many viable options that will help him achieve his goal of smooth succession.

How We Helped

Our engagement with this practice started several years ago with Executive Coaching and Equity Management (through valuations). We provided support for the succession through our enhanced Turnkey NextGen Deal Support service.

With the dissolution of arrangement with this particular associate advisor, our service is now shifting to continued coaching, valuation and succession planning, as we work to aide the nextgen advisor to their transition back to employee and the founding advisor in securing a committed successor for their practice.

TIP

To avoid this issue in your own practice, it's important to thoroughly educate the Nextgen advisor on the responsibilities of being an owner. You can have them take on an expanded leadership role so they can gain first hand experience before committing to the deal or let them shadow you as you complete ownership related duties. Being an owner is not as glamorous as it sounds, and advisors need to be fully aware of the benefits and the downsides of having an equity stake in the practice.

COMING FULL CIRCLE

A Case Study

Many advisors hope to see their practice transition to the second generation. Its even more exciting when the practice is able to create a true succession pipeline and watch as the third generation moves into ownership.

Although our Turnkey Nextgen Deal Service is new, we have been helping advisors with internal successions for years. Our experience with the unique demands of these deals versus external successions and the ongoing support we've provided to multi-generational teams practice allowed us to develop what has now become one of the most popular M&A services we offer. One practice in Southern California was instrumental in shaping our service as we helped them navigate not one, but two generational deals over three years.

In the first iteration, the long tenured associate purchased a 30% tranche of equity in the business and became an operating partner. Three years following, he purchased the remaining 70% of equity from the founder, closing the loop on the first-generation transition. Subsequently, the first tranche of 20% equity has been sold to the third-generation advisor, with the intention to continue the process and legacy of the practice for generations to come.

How We Helped

Our services for this group began with Executive Coaching with the founder. As the founder worked through his succession plan, we helped create the transition structure and agreements for the second and third generation transitions. First through our Turnkey Deal Support Service, and later through our enhanced Turnkey Nextgen Deal Support service. Our involvement with their team spanned many years and was the first transition completed for three generations!

“I cannot thank you enough for making my transition to retirement happen as smoothly as it did. Every interaction I had with each of you eased my anxiety and provided me more confidence that this was the right move for me and my clients.”

- Larry M.

NEXT STEPS - GET HELP

For advisors selling to an associate advisor within the practice, we've designed a flat fee service to support you and your successor.



PRACTICE VALUATION

Our award-winning practice valuation is used both as a basis for negotiating a deal and for securing bank financing.



M&A CONSULTING

An M&A coach to help develop a term sheet and review the deal earnings model. Includes **four meetings with the M&A expert**, supported by email communications.



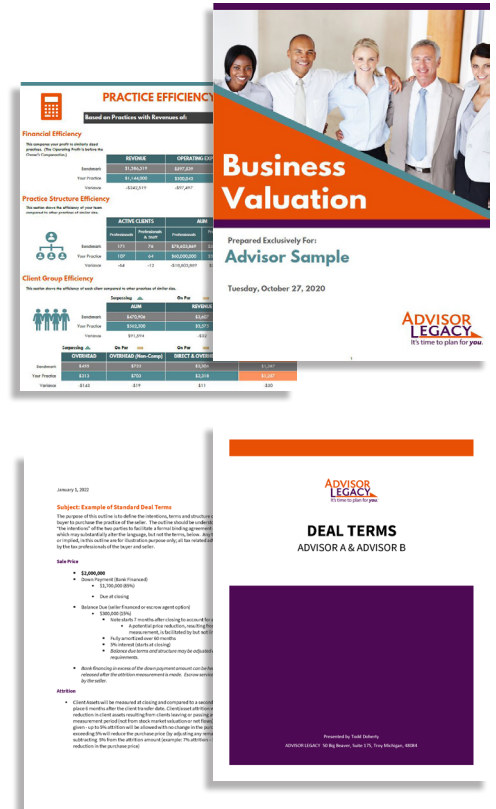
LEGAL AGREEMENTS

Once the term sheet is developed, an attorney will create the formal legal agreements.



TRANSITION PLANNING

Two meetings with an Executive Coach to discuss transition planning considerations.



“Having never gone through this process before, the knowledge and professionalism Advisor Legacy displayed was invaluable. They helped us really understand the process and the value drivers of the practice so we could design a deal that worked for everyone. We wouldn’t have been able to figure this out on our own. They were always responsive and gave us undivided attention during meetings. They even helped us with finding lenders for financing and legal support.”

- Internal Succession, Ameriprise

Total Flat Fee - \$12,995*

<https://advisorlegacy.com/deal-support>

*See website for terms and full details



No matter what stage of your career you're in, we help you build, live, and leave an advisor legacy you can be proud of.



BUSINESS
VALUATIONS



CONTINUITY
PLANNING



LENDING &
LEGAL SUPPORT



DEAL
SUPPORT



PRACTICE
SALES



SUCCESSION
PLANNING

Your future is our only priority.

You wouldn't leave your client's legacy to chance. Why leave yours?

CONTACT US



5440 Corporate Drive, Suite 205
Troy, Michigan 48098



248.328.4100



info@advisorlegacy.com

advisorlegacy.com