

ARTICLE

Should I Stay or Should I Go?



The market for advisor practices was set to be a record year in 2020 based on closing 2019 out on a high note, with valuations and deal terms as good as they have ever been. Fast forward three months and COVID-19 has eroded all these gains and left many advisors reeling and re-evaluating. As an advisor thinking of phasing out over the next few months or years, you are probably thinking, "Great, now what?"

Given current market conditions, the question is, do you sit on the sidelines and try to time the market, or remain in the game and pursue a sale? There are a variety of reasons to delay selling:

- You have too much going on
- You love what you do
- You are too young to sell and are still healthy
- You don't know what you would do with your free time
- You are worried about your staff being retained
- You are worried that your clients won't transition to a new advisor
- You think another advisor wouldn't service your clients the way you do
- You have existing debt
- You don't want to change broker-dealers, custodians, etc.
- You have looked at all your options and haven't found anyone that is perfect
- You are concerned you won't receive full value of your practice

If any or all of these reasons resonate with you, selling your business likely still makes sense because all of these elements can and are dealt with as we construct the deal. And selling now may not only be the best for you and your clients, but it may protect you from being in violation of your fiduciary duty.

According to William McCance, chairman and president of TAG Group, "Most advisers without a succession plan recognize the potential perils of not having one, but without motivation to retire, advisers may feel they have plenty of time to plan, even when they are beyond the typical retirement age. It's time for the aging army of financial advisers to follow their own advice when it comes to their businesses ... for their clients' sake, as well as their own."¹

With SRG taking your practice to market, you'll find it is still very much a seller's market – with YOU being the commodity. The value of your life's work has not been materially reduced due to a sudden (and, hopefully, short term) decline in the market.

Steve Levitt, Managing Director of Park Sutton Advisors, shared a timely quote in a recent article, stating, "The inherent value of RIAs is the same as one month ago".²

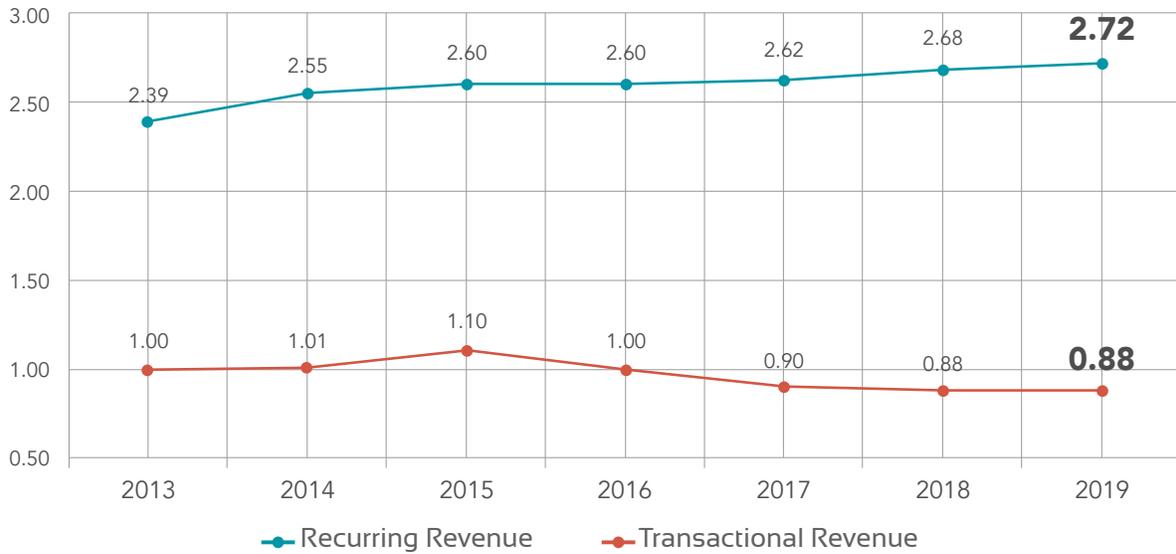
Based on SRG's published multiples the average values for practices continue to be at an all-time high.³

¹ Financial Advisor IQ. "Older FAs Who Refuse to Retire May Harm Clients, Violate Fiduciary Duty". Alex Padalka. May 1, 2020.

² Financial Planning. "Is the wild ride for the RIA M&A market over?". Charles Paikert. March 18, 2020.

³ Succession Resource Group. 2019 M&A Data.

Average Multiples of Revenue



It is important to understand how the values of firms are assessed. The value of a Registered Investment Advisor (RIA) is not based on one bad month or quarter, or just a simple multiple on revenue. Qualified valuation analysts, such as those at SRG, review historical revenue and expenses and estimate the future earning potential based on what was proven to be true from historical data.

While values may not have changed in the short term, the financing terms of the deal have changed given the new risks in the market. Given current market conditions, the upfront cash component is now typically 50%-80% of the total deal depending on the size of the book, size of the buyer, and expenses of the combined companies. This is down slightly from the typical 80-100% prior to March 2020. The upside to deferring payments into later years is the ability to mitigate taxes and potentially keep the payments at a lower tax rate.

	PRE COVID-19	POST COVID-19
RIA Multiples	<ul style="list-style-type: none"> • 2.72x Gross • 4-7x EBITDA 	<ul style="list-style-type: none"> • 2.72x Gross • 4-7x EBITDA
Deal Terms	<ul style="list-style-type: none"> • 80-100% Cash upfront • Balance held in escrow for 12 months 	<ul style="list-style-type: none"> • 50-80% Cash upfront • Limited all cash deals • Balance held in escrow for 18-24 months
Clawback	<ul style="list-style-type: none"> • 50% have no clawback • 50% with clawback, adjust after 12 months 	<ul style="list-style-type: none"> • 20% have no clawback • 80% with clawback, adjust after 18-24 months

According to Cerulli Associates, the average age of a financial advisor is 58 years old and only 30% have formal succession plans – despite 2/3 of RIAs who would like to transition within five years. Through SRG's Seller Advocacy Program, there has been a consistent trend year-over-year for buyers and sellers to work together for elongated periods, allowing for a smoother transition and higher retention rates. This was driven by advisors becoming more proactive with their succession plan goals earlier and has been exacerbated by the current market conditions.

Today, SRG has seen increasing demands for buyers to retain:

- You post-sale in a variety of different capacities – allowing you to continue to do what you love while still receiving additional revenue
- Your staff – ensuring consistency for your team and clients
- Your location – maintaining continuity for your clients

Buyers want as much continuity for the clients as possible, and when market conditions are turbulent, that becomes critical to long-term success. And through SRG's Seller Advocacy Program (SAP), our clients are able to achieve all of their goals. Through our 9-Steps to Success process, we work with you to:

- Help you understand and define your short-term and long-term goals, both personally and professionally
- Gain maximum exposure for your practice, but also screen and vet out buyers so you are only presented with those who meet your initial criteria and ensure they are well-qualified
- Ensure all key elements of your practice are retained – whether that is you, your staff, or your location
- Maximize the immediate value you receive for your practice now through building creative deal terms, including upside potential

You no longer have to make the decision to keep working, or sell and retire. SRG can help you sell the business and maximize your value on your terms.



Turnkey Deal Support

If you already have a deal, whether you are a buyer or a seller, we will provide everything you need to complete your deal, including consultation, financial analysis, contracts, resources, and more.

Learn more: <https://successionresource.com/deal-support/>

Seller Advocacy

Looking for a suitable successor to take care of your clients and grow your business? No risk and no cost — we help advocate for your business, find and filter through potential buyers, negotiate, and close the deal.

Learn more: <https://successionresource.com/seller-advocacy/>

Questions? Need Assistance?

Schedule Your Call with Us
<https://srg.link/schedule>



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