



## Your Retirement – Your Way

Succession planning concepts to preserve the value of your practice

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## Agenda



1. The importance of succession planning
2. Overview of valuation methods
3. Know what you are purchasing – case study
4. Valuing the practice & structuring the offer
5. Due diligence
6. Points of negotiation
7. Choosing a successor
8. Risks
9. Steps to a smooth transition



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## Why are we talking today?

- Financial Industry is aging – over 50% of independent advisors are over the age of 50...with 14% over the age of 60 <sup>1</sup>
- Industry is still very “young” as it relates to transitions.
- Less than two-thirds of advisors have an adequate succession plan in place – yet for many it is one of their most valuable assets<sup>2</sup>


 <sup>1</sup>The Cerulli Edge – Hire, Train, or Else 3<sup>rd</sup> Qtr 2010  
 <sup>2</sup>Investment News/Moss Adams Financial Performance Study of Advisory Firms

3

## Benefits of Planning Your Exit Strategy

A Succession Plan allows you to transfer some or all of the client relationships from one advisor to another to create a controlled transition over a period of time or at a specific date...such as retirement.

- Build value
- Ensure continuity of service for your clients
- Provide for an efficient transfer of business
- Allow you to retire on your schedule
- Time your exit to maximize value
- Help minimize tax impact
- Help remove emotional decision-making
- Eliminate the risk of a fire sale
- Provide career-path opportunities to existing associates
- Plan for the unexpected

 <sup>1</sup>Thinking Smarter: Build Greater Practice Value through Succession Planning, Investment News – Jan. 2012

4

## Developing your Succession Plan

### What should I look for in a successor?

- shares your values and approach to client service
- someone who will care about your clients the way you do
- the company behind your successor is financially strong and has the product depth to meet your clients' needs

### What should I think about when planning my transition?

- sell outright
- transitioning over time
- collaborate with an advisor
- scaling back and working only with select clients.

*The earlier you start planning, the more time you'll have to find the right advisor and make the transition on your timeline.*

5

## So...what drives practice valuations?

*(Beyond the financial terms of the deal)*

1. % of Revenue that is recurring (wrap, advice, etc.)
2. Growing business (Net Flows)
3. Portability of business
4. Client demographics (younger, affluence)
5. High client satisfaction
6. Clean compliance record
7. "Institutionalization" of business vs. "One person shop"
8. Staff transitions with practice to buyer
9. Longer transition of advisor with buyer
10. Market place demand



6

## Valuation Methods

Provide a reliable guideline as to current value of a practice sold on the open market

Method	Examples	Definition	Common Ranges
Income Approach	Cash Flow Discounted Cash Flow Earnings	If I invest time, money and effort what is the economic benefits to me and when?  <i>(Rate of return expect to receive from the investment)</i>	Growth Rate: 5-10% •3-7% Market Growth •3-7% Practice Growth  Discount Rate: 5-12%
	Market Approach	Multiples of Revenue Multiples of AUM Comparable Sales  <i>"Fair Market Value"</i>	Value = 1.0 - 3.0 x Revenue Value = .5 - 1.5 x Assets
Asset Approach	Assets & Liabilities	What will it cost to create another business like this one that will produce the same economic benefits?  <i>(Few tangible assets so not applicable to Financial Services)</i>	Value = Assets + Goodwill



7

## What a Valuation May Not Tell You

### Broker Dealer Impacts

- Product portability
- Product compensation changes
- Future cash flow
- Ramp up Assumption- GDC and AUM

### Transition Risks

- Transition/legal risks
- Compliance history
- Other interested parties (solicitation)

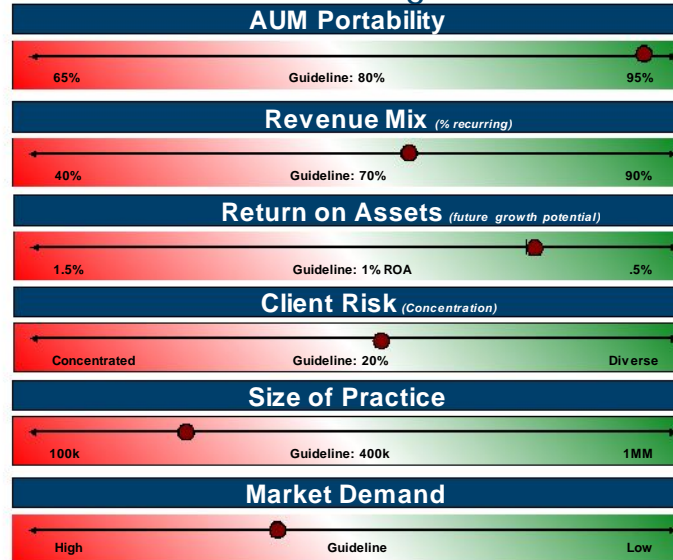
### Negotiation Considerations

- Added expenses
- Deal structure
- Tax implications



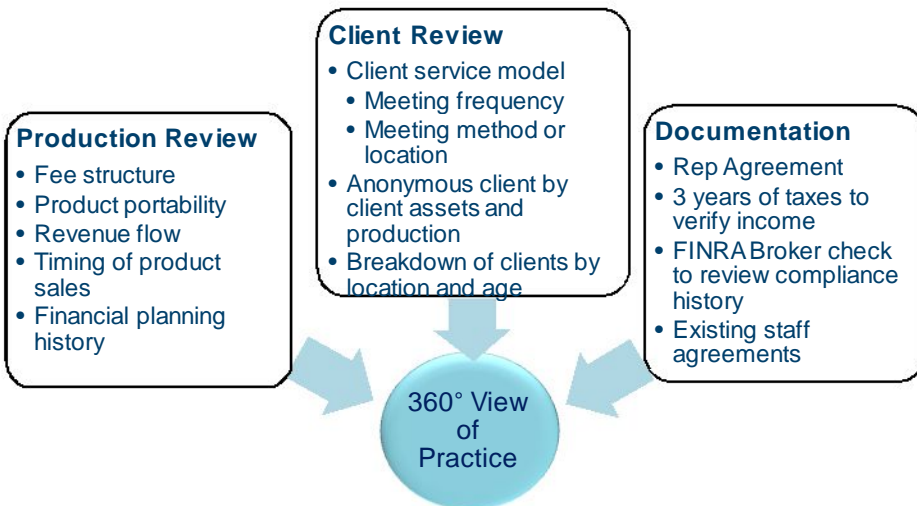
8

## Common Factors Affecting Business Value



## Due Diligence

Goal: Verify initial data received and evaluate risks



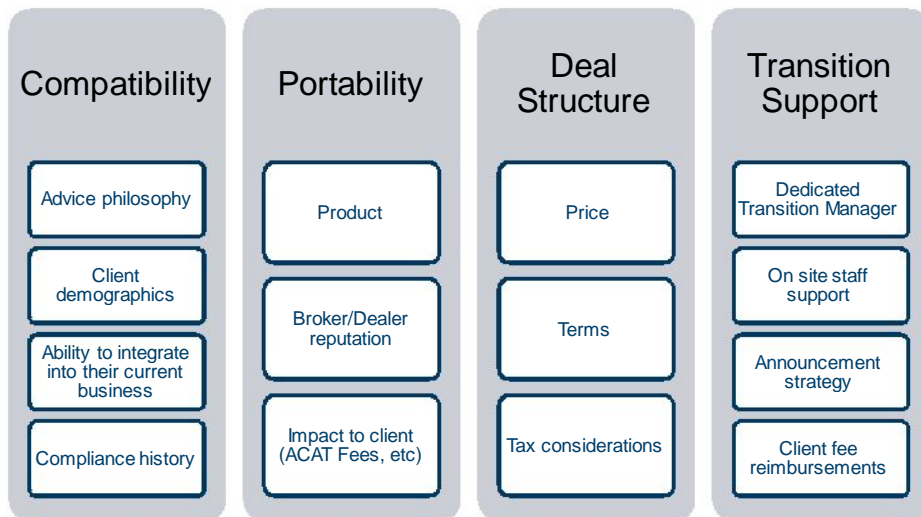
## Points of Negotiation

	Structure of the Deal
<b>Seller Involvement</b>	<ul style="list-style-type: none"> <li>Collaborating with your successor (temporary or longer term) to provide transition support</li> </ul>
<b>Payments</b>	<ul style="list-style-type: none"> <li>Down Payment Percentage: Average 30% - 40%</li> <li>Deferred Payments: 3-7 years</li> <li>Deferred Payments tied to performance</li> </ul>
<b>Protections</b>	<ul style="list-style-type: none"> <li>Non-solicitation agreement</li> <li>Non-compete agreement</li> <li>Embedded interest – restrictive covenant agreement</li> </ul>



11

## What to consider when identifying a successor?



12

## What leads to success?

### Seller

- Similar practice structure
- Aligned values
- Relationship often more important than price
- Treat each other like clients
- Commitment throughout the transition process
- Trust

### Buyer

- Consistent contact
- Listen to the seller's needs and adjust
- Leverage resources available through the broker dealer
- Solicit legal counsel and tax attorney
- Consider future potential and growth
- Work with seller to develop a transition plan
- Clearly define roles and responsibilities after you execute the sale



13

## Practice Acquisitions – Risks

- Competition From Seller – Non-Competition Agreements
  - Need to be enforced in court and FINRA
- Gunjumping
  - Moving clients before an agreement is complete and signed
  - Moving clients or signing an agreement before funding is secured
    - Important to have agreements that are contingent on funding
- Not Fully Executing the Forms
  - Includes all terms and signatures
- Not Understanding the Practice Well
- Not Understanding the Clients or Their Strategies Well
- Not Matching Licenses Before the Acquisition
- Saving Money by Avoiding Legal Review
  - This is a major purchase and commitment of time and resources



14

## Steps to a Smooth Transition

### Information Gathering

- Understand asset and revenue breakdown.
- Meet with advisors in your area who are interested in acquiring an advisory practices.
- Identify the advisor(s) who would be the best fit to serve your clients.

### Offer and Due Diligence

- Discuss the practice and the options available to you.
- Review the offer for your practice.
- Participate in the due diligence process, providing additional detail as needed.

### Integration Planning

- Work with your successor to develop an integration plan.
- Draft client communications announcing the upcoming transition.
- Plan events and face-to-face meetings where your clients will meet your successor.
- Review and sign the acquisition documents.

### Transition

- Support the transition of your practice according to your integration plan and broker dealer privacy policies.



15

## Develop your Succession Plan

Ameriprise can help

### Benefits for you

- Choose a successor who shares your values
- Retire your way
- Reap the financial rewards of the practice you've built
- Get dedicated, step-by-step support

### Benefits for your clients

- Personal financial planning and advice
- Access to a wide range of products and services
- Fee-free account transfers.
- Free-for-Life IRAs

Whether you're planning to sell your practice or just thinking about it, contact me to talk about a succession plan.



16



## Wrap-up

- My role is to help identify potential matches that align with you and your desired outcome.
- You can also call us confidentially at 888.267.8370, visit us at [joinameriprise.com/sell](http://joinameriprise.com/sell) or send an email to [practice.acquisitions@ampf.com](mailto:practice.acquisitions@ampf.com)

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17