Success and Succession
10 Years Later

Internal succession isn't dead …
but it's on life support

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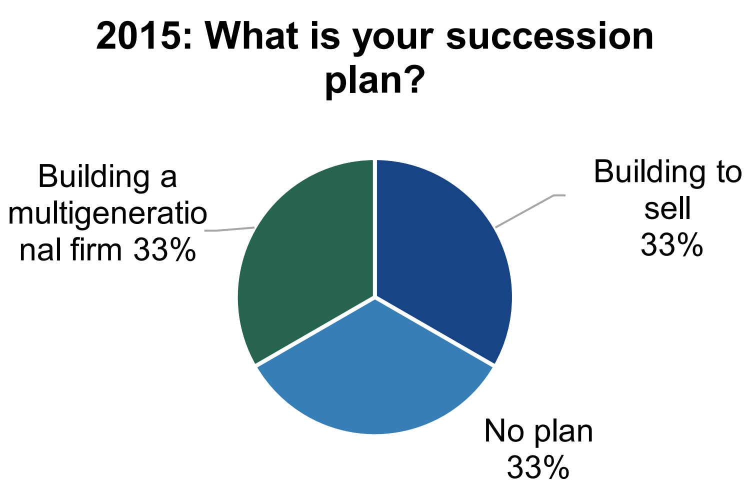
Introduction

For advisors who have invested their time, resources, passion, and career building their firm, thinking about what comes next can be a tricky question. The fact is this: succession is an important consideration for all advisors, and there are a lot of intricacies to selling a business. With a shrinking pool of young talent to take over and a quickly changing market of buyers, the game is changing for advisors when they think about their succession plan – if they have a plan at all. For some advisors, joining a collective that allows them to remain control of their own practice and own a stake in the holding company can help them earn higher multiples and make sure their succession story is a success.

Background: The difference 10 years makes

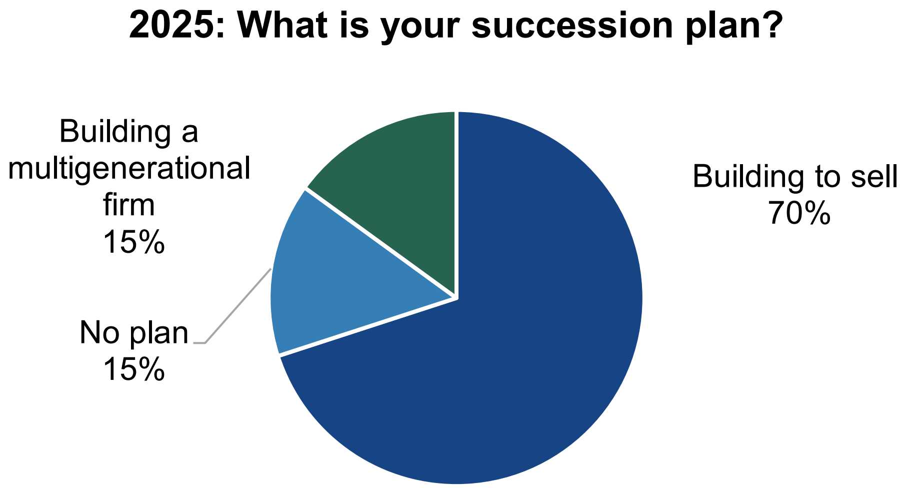
It's hard to believe it has been 10 years since the release of *Success and Succession*. I co-authored the book, along with Eric Hehman, CFP®, CEO and Principal of Austin Asset Management, and Tim Kochis, Founding Partner of Aspiriant. We unpacked the key principles of succession as they existed in 2015. Ten years later, it's amazing how much things have changed.

In 2015, we interviewed more than 100 advisors across the U.S. regarding their succession plans and they fell equally into three camps:



Only *four* advisors had implemented a successful internal succession plan, which we defined as an internal employee gaining a super majority stake in a practice with full operational control. (In full disclosure, two of the four success stories were from my co-authors Tim Kochis and Eric Hehman.)

In 2025, here’s where advisors fall:



The most obvious change is the growing number of firms planning to sell their firm when they retire, with the number of advisors who want to do a transaction more than doubling over the last decade because of multiples going parabolic. The advisors without a plan advisors tend to be smaller, and their businesses look more like practices than actual wealth management firms. And finally, the advisors attempting to build a multigenerational firm usually have children on the payroll.

Why internal succession has changed

In three words: dramatically higher multiples. With the entry of private equity investors and, more recently, sovereign wealth funds, the value of independent RIAs shot up. In 2015, a $500MM firm would transact at 4-6 times earnings before owner compensation (EBOC). The few internal success stories we witnessed usually included a 20% discount for the internal acquirer.

Here's an example of internal succession in 2015:

- $500MM firm doing $4MM in top line advisory fee revenue
- Profits of 50% for $2MM in earnings
- Trading at a 6 times multiple strategic value of $12MM
- Successor has the option to buy at 20% discount putting value at $9.6MM

The plan would occur over a 5–7-year period where the successor would buy a percentage of the company annually with the agreed upon multiple calculation with the discount. At the end of the process, the successor:

- Paid $9.6MM to acquire the firm
- Which meant the founder took a total discount of $2.4MM

Based on 2015 multiples, the founder would not have to seller-finance the loan as bank financing would be available to the successor at those multiples. The founder would receive cash up front and annually for each tranche the successor purchased, however it would still take years for the founder to de-risk.

What would happen in 2025?

Let's use the same situation: $4MM in revenue, $2MM in earnings, selling for 12 times multiple or a value of $24MM.

The founder, now in a 20% discount scenario, is giving up *$5MM vs. $2.4MM* and the successor, even at a discounted multiple, would not be able to bank finance the loan, forcing the founder to *seller-finance the transaction*. To make this work for a successor, payments would need to be stretched out over a 10–12-year period, exposing founders to *more risk*. This extended time period would take most advisors into their early 70's before the deal was completed.

Three issues with succession

In 2015, we were shocked by how few advisors had a plan place and why there was not more discussion around the topic. That continues to be the issue today with most advisors simply "planning to sell" as their plan. Unfortunately, this approach leads to other issues that negatively affect advisors' ultimate sale price. It is never too late to rectify these issues, however due to the lack of younger talent in the business, some issues will not be overcome.

Issue 1: Successor executional risk

When buyers look to acquire a firm, the drivers of multiple are:

- EBOC
- Age of the client base
- Whether or not second generation (G2) is in place
- Margins

Most advisors have done a great job with generating revenue, but their client base is aging, their businesses are running at low margins, and they lack a successor. Advisors don't prioritize bringing younger advisors into their firms and buyers are now faced with an aged client base and the fear that clients will depart when the founder retires.

Additionally, many advisors have a lifestyle practice rather than a business. This is the primary reason that most deals today are back-end loaded with little cash up front. Advisors who put off hiring and developing future talent don't have a sustainable asset to sell and must stay under the acquiring firm until their relationships can be handed off to the next generation. With the average age of advisors eclipsing 62 in 2025, the window of opportunity to resolve this issue is not what it was in 2015.

For 60-year-old advisors, attempting internal succession or recruiting a successor is risky. They likely have missed the window of opportunity. (And that's assuming the advisor can even find a successor because the pool is so small.)

The industry thought things like the CFP® program at Texas Tech University would solve the talent shortage issue. However, even as successful as these programs are, the numbers can't make up for the waterfall of older advisors phasing out. For the few advisors that have G2 successors in place, the effort and investment put forward will pay off handsomely at exit.

Issue 2: Operational risk

Most firms are wasting a large amount of time and money on technology in search of scale but not getting the desired payoff. At a time when platform fees have collapsed, technology spending should be going *down*. But most advisors have no technology experience and are building people-dependent "Frankenstacks."

Schwab reported that the margins for an average RIA hit a 20-year low at 19%. All this tech was also supposed to drive growth by freeing up the advisor to spend more time on clients and new prospects… but organic growth rates have hit a 30-year low, dipping below 2.8% less market appreciation.

Across the board, too much time is being spent by founders and advisors on compliance, books and records, and technology and this unfortunately affects sales prices when advisors go to market to sell. Buyers want to see high margins, G2 in place, and organic growth north of 10%. Advisors have failed in all three areas since our last survey.

Issue 3: Organic growth is anemic

Most firms aren't growing. Almost 80% of the positive organic flows in the RIA space are now attributed to *just 10 firms*.

With the S&P up over 20% two years in a row, the market is masking poor business performance for most RIAs. Organic growth rate is one of the most important variables when buyers value practices and unfortunately few firms have numbers to brag about. Everyone is looking for the silver bullet, but organic growth is illusive.

Custodial referral networks are reserved for large aggregators and more referrals are being handled by in-house advisors at the custodian than ever before. These programs have also gotten very expensive with revenue share being paid to the custodian for the life of the relationship.

Radio shows have helped firms like Wealth Enhancement Group grow but they drive small retail customers (average clients are under $200,000) and most firms do not have the scale to serve smaller accounts.

The answer is to be on a platform that gives advisors scale, productivity, and access to additional services that drive revenue. This allows advisors to generate more revenue from their existing client base and serve and prospect for more clients. It really is that simple.

Solving succession via sale is not a plan

Over the past ten years, many firms have tried to solve their succession issues via sale and unfortunately, they have not done a great job of preparing the business to maximize proceeds. As a result, advisors wind up selling to the wrong partner at a diminished value. With some creativity, advisors can still make a plan that can dramatically increase size, margins, efficiencies, and revenue. By taking this approach, advisors can get big enough to sell to the right buyer and remove the middleman from the equation. As advisors try to position their firm and navigate the journey to succession, here are a few key inflection points that can make a difference.

Find the right partner

The last time the roll-up frenzy happened in the wealth management space, the buyers were community and regional banks. They had long runways, could do small deals because of their low cost of capital, and didn't have duration risk. In 2025, that isn't the case. The private equity and sovereign wealth fund buyers must deploy a large amount of money, and they need to do it in a finite timeline due to their fund structures. These buyers cannot buy most firms directly because the dollar value deployed would be too small, and it takes as much time to do a deal for a $500MM firm as it does for a $5B firm. The buyers are backing strategic RIAs (Wealth Enhancement Group, Creative Planning, Beacon Point, Mariner, etc.), turning them into mini-M&A shops, and providing capital to roll-up smaller firms. Deals are light on upfront cash and heavy on stock and incentives. It's a smart strategy from a capital deployment standpoint, but in most cases, it is not in the best interest for the seller.

What's more, when a behemoth buys a smaller firm, they use an intermediary to facilitate the deal, which further diminishes the advisor's proceeds. With two mouths to feed, the advisors' proceeds are not maximized – which shouldn't be a surprise to the advisor as they really didn't have a succession plan in the first place.

With the average age of advisors eclipsing 62 and no organic growth engine there is no time left to meaningfully grow AUM to impact the sale price. These factors are why so many deals are taking place today; advisors have realized that they will not be able to get much bigger.

Maximize value: Do the two step (and we are not talking about dancing)

When it comes to succession, size truly matters. There are approximately 90 firms in the U.S. with over $5B in assets and about 300 over $2B. For a firm to sell directly to a private equity buyer, the firm must be north of $5B, and in many cases, $10B or more. These practices are enormously valuable. Consider this: of the 90 firms over $5B, all but three are not already owned by a private equity firm or sovereign wealth fund.

So, what's the two step? The best way to maximize value is to get onto a platform with like-minded advisors focused on getting north of $5B in AUM. This platform will not only solve the size problem but also provide efficiencies most small- to mid-sized firms tend to struggle with, and in turn, solve the organic growth problem.

Advisors should look for a platform that is majority-owned by the advisors. Today's platforms are owned by broker dealers or aggregators. By joining a platform that the advisor has ownership in, the advisor not only gets a higher multiple on their own business, but also on the platform business they helped create. In this scenario, the focus is on planning and removing as many middlemen from the transaction as possible. Advisors can take advantage of financial engineering instead of being financial engineered!

In practice, these organizations can be a tremendous resource for firms as they ponder their succession plan. In full transparency, a firm I co-founded with John Phoenix, Wealth Advisor Growth Network (WAGN), has created the *first firm in the industry that espouses these values*. Uniting Wealth Partners (UWP) provides all the services an advisor needs to run an independent RIA – compliance, technology, IT, benefits, investment management, financial reporting, marketing, branding, and billing – while also providing access to experts in lending, P&C insurance, life insurance, trust services, and M&A. UWP owns part of every advisor's practice and every advisor owns part of UWP.

Most advisors today work for the house; with UWP they own the house. This will be the next trend in succession and, for those advisors willing to put a plan in place, the results will be *multiples normally reserved for the private equity firms* that are aggregating smaller shops. Our focus is to put the advisors' interest above our own and this is the culmination of 30 years of work. As my first boss said…having an opinion doesn't mean anything if you don't do something about it, and we have done something about it.

Check your ego

The last item of advice is simple, but it can be challenging. If you want a great outcome, check your ego at the door. Multiple is about ego. The buyers know it and they know you want to go to your country club or industry event and say you got 12 times. You likely didn't.

Three things to understand in a transaction

The impact of earnout

Let's look at an example:

- $4MM top line and $2MM in profit
- The firm is being quoted 12 times multiple
- Value paid will be $24MM
- However, 20% comes in an earnout where the firm must grow 10% per year

If the firm hits its growth targets at the end of year two, the firm is now at $4.84MM top line and $2.42MM in earnings. The buyer paid $24MM for a firm that is now doing $2.42MM in run rate earnings or a 10 multiple. This is why buyers value growth. It brings down the actual multiple paid, but lets the seller feel good.

The earnout issue is interesting, but more academic than anything. The next two items really matter.

The impact of earnings adjustments

The multiple is one thing, but you must multiply it by something to get to a value. At the end of the day, how much money a seller has in their pocket should be the only focus.

Earnings adjustments are key. If I'm a seller and I can get a buyer to allow me to adjust earnings up, it's a win.

Here's an example: you pay a marketing firm $100,000 a year. After the sale, that expense goes away because the buyer has a full marketing department. You should negotiate in your terms the ability to adjust earnings resulting from any savings caused by the acquisition. If the acquirer allows you to adjust it by 50% of savings (that is $50,000) and the advisor has just added $600,000 in value to the deal in a 12 multiple game.

The impact of equity calculation

I could go on and on about this one, but I'll keep it brief. When receiving stock in a deal, advisors need to understand the liquidity *and* the valuation. I've seen deals where the stock is valued at 30 times future earnings and it's 50% of the deal. The math on that is an implied 2% return on 50% of the deal and cash on the other 50%. The buyer then tells the seller they are getting an 18 multiple (again, to make them feel good).

The math works, but it's all math. It's a great story in a slide deck, but the seller doesn't walk out with a lot of cash in their pocket.

Summary

Advisors labored their entire careers to build relationships and their businesses, and they are entitled to all the rewards from their work. Unfortunately, most advisors have not made an exit plan and are now allowing third party entities to prey on this vulnerability.

The private equity-powered RIA aggregators seem to be a great solution for those that have not planned, but this approach introduces a middleman to the equation driving multiples down. This also exposed the staff that advisors have cultivated over the years to the whims of private equity cost cutters.

Many advisors rush to sell because they feel that multiples will eventually come back to normal levels. However, for well-run firms over $5B in AUM, current multiples are not in jeopardy and might even go higher. Our confidence is based on two facts:

1. There are very few $5B RIAs for sale
2. Two additional buyers have joined the market of buyers: asset managers and sovereign wealth funds

There is no structure in the wealth management space more favorable to the advisor and their clients as an RIA built and owned by advisors, such as Uniting Wealth Partners. UWP allows advisors to deliver standard services more efficiently to their clients while opening avenues to provide more services that generate additional revenue and better client outcomes. Advisors share services and are the majority owners of both UWP as well as their own businesses.

In short, UWP is built by advisors for advisors and provides optimum outcomes for advisors, their successors, and their clients. Learn more at unitingwealthpartners.com.

About the authors

About Jay Hummel

Prior to founding WAGN, Jay was a Senior Vice President and Head of American Century Investment's Personal Financial Solutions Business. Jay was responsible for the strategic and executional oversight of teams serving 600,000 individual and small retirement clients with $40B in assets under management. He is a former Managing Director of Envestnet where he served as the Head of Strategic Initiatives and Thought Leadership. Jay is the former President and Chief Operating Officer of Lenox Wealth Management, a Cincinnati-based multi-family office and started his career in accounting and consulting at Deloitte.

About John Phoenix

Prior to founding WAGN, John was the National Sales Manager for the Institutional Business Development team at Envestnet. He was responsible for leading the new business efforts around large enterprise firms looking to deploy the Envestnet suite of services. John supported the firm's efforts in the bank, independent broker dealer, regional broker dealer and registered investment advisor channels. John also led the high-net-worth sales division at Envestnet working with RIAs, hybrid RIAs, and independent advisor networks that deployed Envestnet. He was CEO and Founder of Metamorphosis Money Management, an RIA in Denver, Colorado, that he eventually sold to Envestnet.

About Uniting Wealth Partners (UWP)

Uniting Wealth Partners (UWP), founded in 2024 by Jay Hummel and John Phoenix, is an independent RIA designed to give experienced advisors the freedom to run their practices while offering a robust network of resources to fuel growth.

We empower advisors to create customized solutions for clients, without the constraints of traditional financial institutions. UWP provides the infrastructure, support, and community needed to build thriving independent practices, with a focus on growth and succession planning.

Whether you're looking to expand your practice, plan for succession, or connect with like-minded professionals, UWP gives you the tools and partnership to succeed on your terms. Learn more at unitingwealth.com.

About Wealth Advisor Growth Network (WAGN)

Jay Hummel and John Phoenix founded WAGN in 2019 after realizing that something was missing in the independent advisor space: advocacy for both the advisor and the client. With more than 55 years of combined experience, we have helped hundreds of firms across the country, including some of the largest RIAs, aggregators, and asset managers.

We're experts in this field because we have run firms, built firms, grown firms, and sold firms. Now, we're focused on helping independent advisors – and the best-in-class companies that serve advisors – accelerate growth, maximize enterprise value, and realize potential. Learn more at wagn.biz.