January 2023

The Heart of the Deal

Understanding and overcoming the emotional barriers of selling your RIA

DeVoe & Company

In Collaboration with allworth Partner Program

Executive Summary

RIA owners sell their company for many reasons – to solve for succession, gain resources of a larger partner, add capabilities for clients, and more. When you embark on the journey to sell, you'll expect to engage with valuation, deal structure, and other quantifiable components. Yet, you'll encounter another critical factor: the emotional side of selling. As you will soon learn, the emotional side of selling is as or even more important than the quantitative side.

DeVoe & Company delved into the *heart of the deal* through both quantitative research and discussions with recent sellers about their emotional journey. Complemented by DeVoe & Company's rich knowledge from supporting sellers and buyers over the last decade and in collaboration with Allworth Partner's experience, these elements have been woven into a guide to help advisors through the softer side of mergers and acquisitions.

Selling is typically the biggest career decision an RIA owner will make. It carries ramifications that extend far beyond the financial impact. Most owners have built their business from scratch, and they have close relationships with their clients and staff alike. As they contemplate stepping away or taking on a less involved role, the associated emotions are complicated.

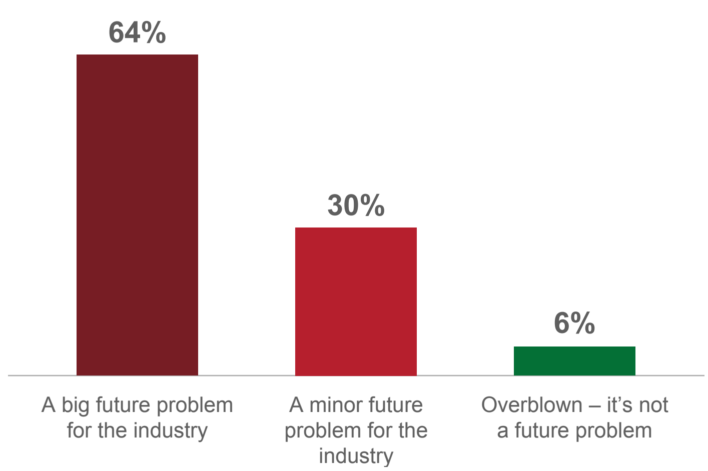
Emotions can stem from fear and aspiration. A range of other emotions will arise at various times in the process: from excitement and joy to frustration and fatigue. These emotions are complex and conflicting feelings can emerge simultaneously. If emotions aren't understood and managed appropriately, they can create a variety of negative outcomes, including the erroneous dissolution of a powerful partnership.

To help optimize the likelihood of a successful transaction and future partnership, everyone involved in a transaction should understand the emotions that will likely arise during the process and have a plan for managing them.

The Context for M&A: Succession Planning Gaps

When the time comes to retire or step away from the firm, RIA owners overwhelmingly prefer to sell internally to someone they know and trust. Unfortunately, an internal sale is not possible for many RIAs. The industry has a significant succession planning problem, with 94% of leaders recognizing that this issue will affect our future. Among that group, almost two-thirds (64%) believe the lack of succession planning creates a *big future problem* for the industry.

Is the lack of succession planning...



Survey Background

The charts and data found in this report are sourced from DeVoe & Company's research, including the M&A Outlook and Talent Management Surveys. Respondents are senior executives, principals, or owners of RIAs ranging from $100 million to over $10 billion in assets under management. More information is available on our website.

Readiness and Affordability Barriers

Among RIA firms seeking to sell, many are faced with a next-generation readiness problem. This lack of readiness manifests itself in two key challenges: management potential and affordability.

Regrettably, many RIA firms simply don't have confidence that their G2 candidates are ready to transition into a leadership role, or don't have candidates at all. Our *2022 DeVoe RIA Talent Management Survey* found that 68% of RIA leaders believe their next-generation leaders are not ready for a transition. RIA executives often have not done enough training or coaching to prepare their future leaders to lead the firm.

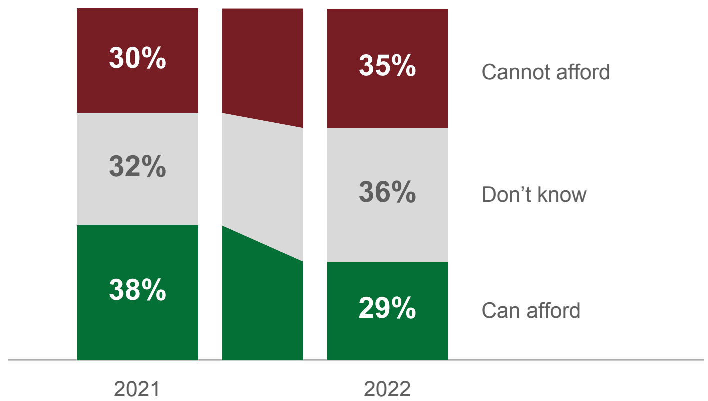
Selling internally has become more challenging economically in recent years, further compounding the internal success problem. A surge in valuations over the last three years has strained the buying power of G2, and affordability has become a more prevalent barrier.

"Multiples in the industry have become prohibitive for internal buyouts," said a principal who recently sold his firm externally. Over a third of advisors have done the math and come to a similar conclusion. Thirty-five percent of RIA leaders have concluded that their younger advisors *cannot afford* to buy out the current shareholders. Concerningly, another 36% simply *don't know* whether their employees can afford a buy-out (DeVoe & Company strongly encourages each firm to do the calculations). And more bad news: The portion of advisors who are confident about G2's economic position has shrunk nearly 10 points since last year.

It's important to consider that valuations change over time – and today's intention can be tomorrow's disappointment. One interviewed founder of a mid-sized Midwestern RIA firm had initially planned to sell to his son when he retired. As the firm grew, the valuation steadily increased, putting pressure on this plan. Eventually, the valuation exceeded the grasp of the son, and they agreed the best decision was to sell externally to another Midwest RIA.

Given the increasing gaps in leadership and affordability, a growing number of advisors can benefit from considering an external sale. Initial thinking on the concept today can mitigate struggles and some challenges tomorrow.

Will your firm's next gen be able to buy out current shareholders when they retire?



For many owners, the concept of an external sale can create a variety of emotions – some of which are visceral and immediate, others which will only emerge in phases throughout the duration of the process. An external sale will have a wide variety of implications and opportunities – each with their own range of related emotions. Those leaders who lean into the journey – and actively engage with both the hard numbers and the softer side – are most likely to achieve the best outcomes. And, they will do so with the least amount of heartache.

The Seller's Emotional Journey

A philosopher might argue that every major decision a person makes is anchored in aspiration or fear. We are driven to achieve, but wired to avoid suffering.

The decision to sell an RIA is invariably rooted in these core underlying emotions. Advisors seek to achieve their goals more effectively through a transaction – typically to improve the lives of their clients, staff, and themselves. Or they may be joining forces to mitigate risks – increased competition, client or staff retention, or affordability. The list of specifics is long and depends on each firm. Understanding the key drivers that are initiating the decision to sell is the first step in the emotional journey all owners embark on.

These drivers also serve as driving forces behind the decision-making process as owners determine whether, when, and how to sell. As the concept of selling becomes more concrete, new emotions will also arise. An awareness and understanding of these concepts are important. They will be deeply woven into the major and micro decisions that an owner will make as they contemplate and execute a sale.

Aspirational Motivations to Sell Externally

An external sale can be a game-changing event that can transform the company, and even take it to the next level. *Owner aspirations* often include stronger growth rates, improved valuation, better and broader services, favorable career opportunities for the team, and even improved client service.

"Whenever we make a decision at the firm, it's got to be best for our clients, great for our employees and healthy for the firm. It's a three-legged stool," said the owner of an East Coast RIA.

Let's examine these aspirational motivations to sell, and how advisors seek to benefit their constituents.

Clients

Client care is both the duty and the heart of RIA firms. Nearly every discussion with a seller begins with the statement, "I won't do a deal unless it is good for our clients." A passion for client service is woven into the fabric of the RIA industry, and that directly affects how owners make decisions about selling.

In our research, the *top motivating factor* in a transition was ensuring clients are cared for in the long term. One RIA owner stated emphatically that unless "our clients would be getting an upgrade in their service and the breadth of great advice and expertise that can be provided" then an external sale would not occur.

That aspirational upgrade has driven most of the transactions over the last several years. Owners seek buyers that can help them provide a broader set of services for their existing and future clients. Sellers are making a strategic decision to expand their offering on an accelerated basis – immediately. The advisors are excited to share an expanded experience with clients as part of the transition story – and use it to attract more clients in the future.

Staff

Ultimately, employees are the lifeblood of every RIA firm. Leading RIA owners know that their people are their greatest asset. They also genuinely care about their employees. As they consider a transaction, finding a partner that offers a positive culture and long-term satisfaction for their staff is critical. Owners who are confident about the post-transaction staff opportunities will swell with pride; those who are not confident will feel nagging apprehension. *Supporting the career paths* for the team was the fourth most important among advisor/owners who took our survey.

Surprisingly, many RIA owners don't intuitively realize that selling to a larger firm will nearly guarantee better career path opportunities for their employees. A larger, faster growing company will provide ambitious employees with more opportunities, and typically will reduce administrative burdens, too. Owners gain peace of mind in knowing that those who care for the company's clients can be well cared for themselves.

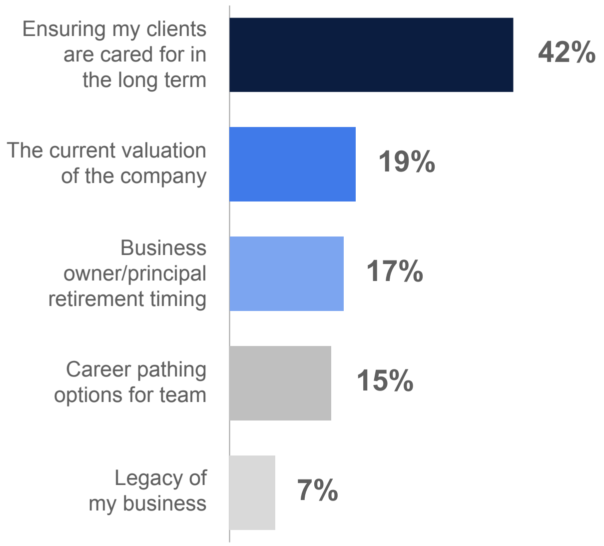
Owners

RIA owners put their clients first when considering a sale, but there is no shame in prioritizing their own needs as well. Founders have taken great risks and poured their time, energy, and money into the enterprise. Often, the company is regarded as the owner's life's work, and appropriately so. Consequently, this investment should be rewarded economically. Their role within the merged organization should be exciting and fulfilling, or their retirement plan should be on their own terms.

Owner aspirations comprise three of the top five motivating factors. Although *valuation* is a quantitative item, advisors may experience pride or disappointment in the expected value of their life's work – and through the process these emotions may expand to intoxication and offense.

Similarly, deal structure is a technical item, but it often dictates *when and how* one will retire, which has vast and profound emotional implications. As importantly, some owners will have concerns and passion about their legacy and how the business continues to represent them after they have stepped away.

As you consider a transition you've already made or one you may make in the future, please share your top motivating factor.



Change is not easy. Owners will experience more post-transaction change than anyone else in the company in most cases. We encourage owners to embrace the change. At the early stages of a potential sale, owners might contemplate this as an aspirational point of departure for their career and personal life.

This change can – and should – create new opportunities. Generally, it will allow owners to focus on what they enjoy and what they do best. Many owners intuitively see the opportunity to optimize their highest use and expect to work even harder. Others seek a more muted role but want to maintain a voice in the company. And others will dial back their involvement and pursue more family time, volunteer work, recreation, or other fulfilling activities. Selling should be an opportunity for shareholders to actively re-evaluate what their role within – and outside of the company – could be.

Anxiety and uncertainty will emerge through the process. But the aspirational starting point is for owners is to achieve a sense of fulfillment, pride and equanimity with the macro decision.

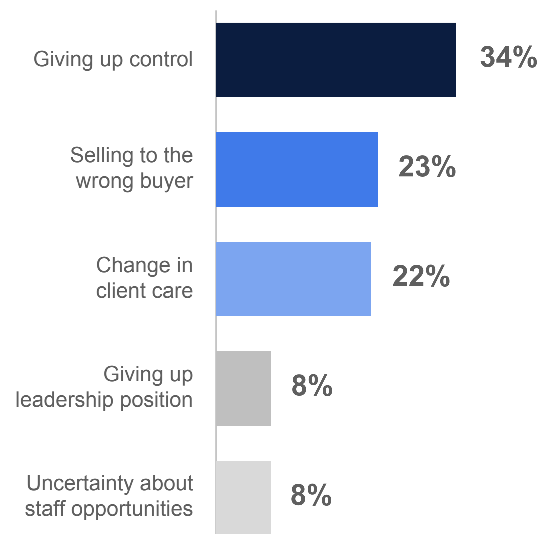
The Emotional Barriers to Selling

The other side of the motivational coin is *fear of change*. People fear change. As a matter of fact, 90% of CEOs fear failure related to change, according to a 2018 study of the CEO journey from Norwest. Change is difficult, and humans naturally resist it. Because change affects people at all levels of the organization, it can create a variety of fears and emotional uneasiness for sellers – and their broader teams.

Although the order of concern is different when contemplating the risks associated with a sale, the negative emotions associated with a transaction revolve around the same three constituent groups that aspirational motivations do: clients, staff, and owners.

Top 5 Fears or Concerns for Prospective Sellers

As you consider a transition you've already made or one you may make in the future, please share your top fear or concern.



Let's take a closer look at the fears associated with each group.

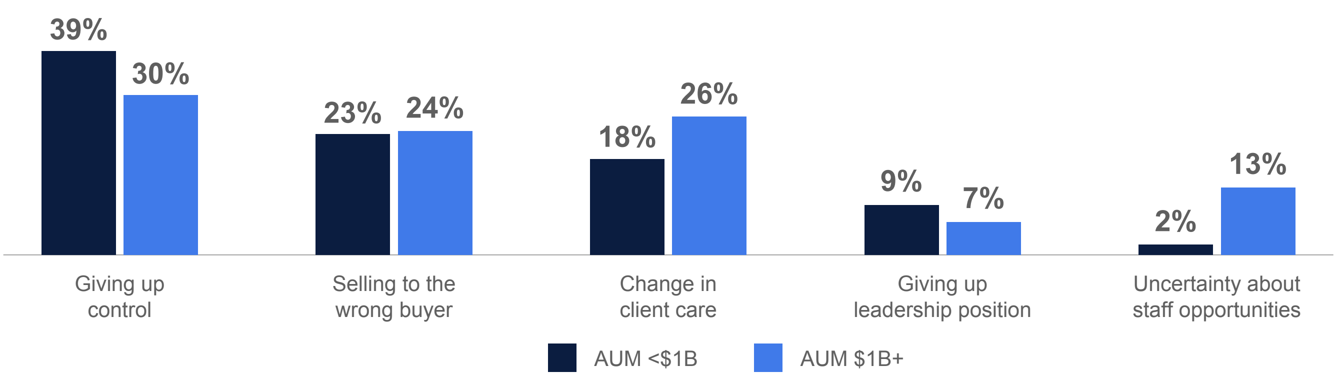
Clients

As we saw above, client care is in an advisor's DNA. The very purpose of an RIA is to help their clients plan, achieve their financial goals, and sleep well at night. CEOs of RIAs are constantly scanning their business for anything that might adversely affect the carefully designed and executed client experience. The risk that a merger could disrupt these relationships is consequently a deep fear.

"We're not just representing ourselves," said one RIA owner when discussing the magnitude of the external sale decision. "We want to care for clients in every way that money impacts them: emotionally, relationally, and spiritually, as well as financially. Taking care of the whole person is really important to us."

Because *client care* is an owner's top priority, it can feel unsettling to step back and entrust that care to new leadership. This fear is even greater for large firms. Our survey found that 26% of the owners of firms larger than $1B reported fearing that clients wouldn't be cared for the same way after a sale, compared with 18% of owners at smaller firms. For both groups, *client care* was among the top three most reported fears in considering a transition. And the number one concern of 'giving up control' is typically rooted in a fear that the new firm will not deliver on their promise to clients.

As you consider a transition you've already made or one you may make in the future, please share your top fear or concern.



Staff

As advisors evaluate potential partners, the *implications for the team* will be top of mind. Will their future roles be the same or better? Will the culture be a happy one? This fear of the unknown for staff ranked as the 4th most important priority for owners of firms larger than $1B. It goes without saying that employees will have their own fears about the changes ahead. Owners understand this natural fear of change and will want to ensure they can communicate the benefits and improvements related to the transition or new partnership.

"We wanted to make sure that our loyal employees, some of whom have been here more than 15 years, had a seat at the table – and that we were able to validate that the acquirer would retain them," said one owner. "We had to proactively assure them that we had scoped out what their career path would look like and that we thought they would be able to expand their careers." This is an effective strategy to turn *fear* into *confidence*.

Owners

The number one fear that owners have when it comes to a transition is the fear of *giving up control*. Overall, 34% of respondents noted this as their top concern, and that number increased to 39% at firms of less than $1B in AUM.

“I am a horrible employee,” said the owner of one firm. “I want to work on my own schedule. Punching a clock is not for me, so that was initially a concern.”

This fear of losing autonomy plays out in several different ways:

- **Fear of Change** – Leaders often struggle with handing off the reins to someone who may do things differently. This transition period can be a painful experience for owners as they come to terms with the fact that new leaders will run the business differently. Owners are concerned that once the business is sold, they may have to work different hours, deal with red tape, and follow different processes.

- **Fear of Becoming an Employee** – Owners who have spent many years at the helm of a business have an understandable apprehension about transitioning to the role of an employee. They want to stay actively involved, but they may struggle with the thought of reporting to someone, taking over the strategy and goal setting, and even the change in their identity.

- **Disagreement with Decisions** – Fear of change is amplified when owners worry that they will disagree with the decisions made by the new leadership. Leaders often struggle with concerns about whether the sale will result in growth and success, or whether the new leaders will make changes that will ultimately harm clients, staff, or the firm overall. Additionally, giving up full control of strategic decisions can be disconcerting to heads of organizations.

- **Seller’s Remorse: Losing Control of the Business** – Finally, there’s a natural anxiety that they might later regret having sold their business at all. This is really a combination of all the fears. There’s a general fear of losing control. In most situations, however, this loss of control isn’t as catastrophic as it may seem at first and is controlled as the successful pieces of the combined organization fall into place.

In our work with clients, we find that upon close examination and self-reflection most owners realize they don’t really want control over as many business decisions as they intuitively assumed. Entire functions like compliance, technology, operations, and HR are often joyously ceded to others, as well as many of the more minor decisions owners have unintentionally held on to. This evaluation of what is *truly important* to oversee also helps to create greater clarity about those areas that an owner wants and needs to maintain. Evaluating these softer issues can create a valuable anchoring in confidence and conviction about a seller’s priorities.

Post-Transaction Leadership Positions

As one better understands their aspirations and fears, they are much better positioned to assess their optimal future role. This continuum can range from exit / retirement to a senior role in the new organization – and everything in between. Often, this is an important inflection point to contemplate a new composition of responsibilities.

> In our survey, three out of four respondents said that when considering a partnership with another firm, they preferred to *remain in a leadership or senior advisor position* for several years after the transaction.

This path can be mutually beneficial, as a seasoned leader helps drive success on a grander scale.

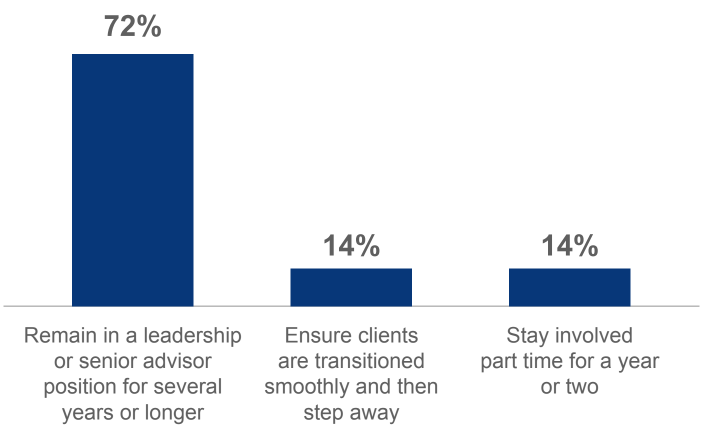
Whatever the desired path may be, it should be architected into the transition plan. The specific leadership role may change – from CEO to leadership of an office, division or function, for example. Beyond the technical choices, emotional reactions will emerge after the company integrates and begins to operate within the partner’s environment.

In most cases, former owners feel good about the evolved position in the company. "I've got a seat at the table," said one former RIA CEO. "It might be different. I'm not an executive leader now, but I'm still a partner. I still have a voice."

In other cases, the outcomes can be bittersweet. Said one RIA owner: "For 26 years, I made decisions and did what I thought was right. And now I have a boss I never had, and I don't have the same control. I still think it was the right decision, but it bothers me sometimes. When you've built a business from scratch, that's a big thing."

For many, the decision will manifest itself with clarity. Most advisors alluded to wishing they did it sooner; however, life is not always black or white. Sellers should contemplate that mixed feelings about their role may emerge in the years following a transaction.

When considering a partnership with another firm, please identify the best option for you or other leaders of your firm.



Other Emotional Factors

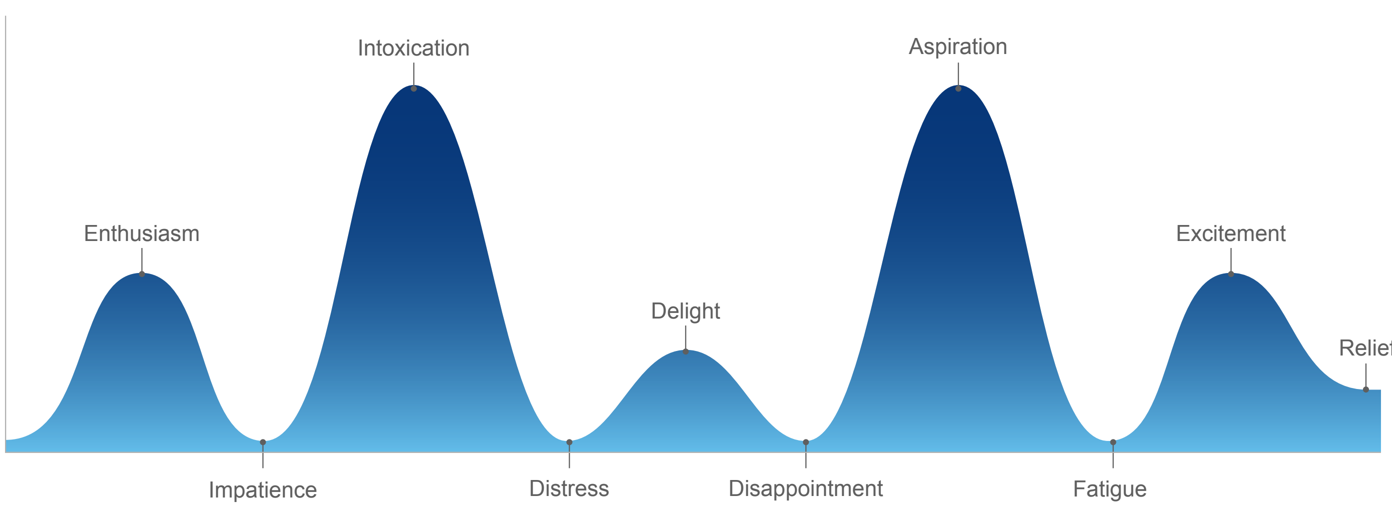
Selling a firm is a journey that will take anywhere from four to nine months. Over the course of the transaction, owners will experience a wide range of emotions ranging from excitement to burnout and from disappointment to over-confidence. Knowing ahead of time that this will be an emotional rollercoaster and understanding what emotions are likely to emerge can help make the ups and downs less intense for both buyers and sellers.

Planning and negotiating a sale usually feels exciting at first. Future sellers will see the possibilities of the decision, and likely engage with trusted individuals who will share their aspirational ideas about optimal outcomes.

As weeks turn into months, the strategic excitement and energy, is often crowded out by technical tasks. And even frustration. Then a new layer of opportunities and compelling connections with buyers will emerge. But as the bumps along the road occur, disappointment and even fatigue can set in. Each seller will experience their unique rollercoaster of emotions with varying degrees of intensity and timelines.

These reactions are natural and occur almost universally. Although the lows can sometimes feel overwhelming, those who act rashly and make emotional decisions can trigger the death knell for the sale. Expecting this emotional journey is a core step toward being grounded through the process and moving toward a successful transaction.

The Emotional Rollercoaster in a Seller's Journey



Emotional Journey for Retiring Founders

Founders who plan to retire after selling the business will encounter a broader and more intense set of emotions. As a founder, you will need to think beyond the transaction and contemplate an entire life change. This examination can set off a series of questions, ranging from simple frustration to existential contemplation about your purpose. You are in the process of parting with an organization – your organization – that you built from scratch. Strong emotions will emerge.

Tim Kochis, Special Advisor of DeVoe & Company, and former CEO and Chairman, Aspiriant, describes it this way: “Owners, particularly in the founding generation, who are transitioning the ownership of their firm to a third-party M&A partner, will likely feel a sense of pride and joy simultaneously with loss and even regret. This is, unavoidably, an emotionally charged experience for everyone involved. My guidance is to reflect on the strategic reasons for the new arrangement – the benefits for clients and for staff – as well as your own rewards, whether it is more time for family and friends, more volunteering, or the resources to start new endeavors. You’ve built a legacy and it will live beyond you…for your clients and your colleagues.”

It is common to struggle with the implications to your legacy. What if the new owner has negative implications for the business longer-term? You also might experience a significant identity change. You’ve been a CEO, a leader, a trusted confidant to clients. Suddenly, you’ll wake up and no longer be those things. You may have very unsettled feelings. Finding new meaning in retirement will be important. How will you spend your time in retirement? What will be your new contribution to your community?

Nearly all retiring owners struggle with a common set of considerations:

- **Legacy Concerns** – Leaving behind a good legacy may be important to some founders. They may be concerned that their legacy will be negatively affected by selling externally to the wrong buyer.
- **Retirement Life Change** – Retirement always creates question marks. What’s next? How will I spend my time? Is my spouse ready for me to be around the house more? How can I continue to contribute to society? From some, retirement is welcomed and anticipated; for others, however, it can be a step into an unsettling unknown.
- **Changing Identit**y – Founders of RIAs have developed an identity as a local leader in the community, the CEO of a successful RIA, and a trusted confidant for clients. Giving up that identity can be disconcerting. Existential questions such as “Who am I?” or “What is my purpose now?” are common.
- **Letting Go** – Selling a business is like sending your kids to college or mourning the loss of a friend, and some founders may experience a measure of seller’s remorse. Letting go of the business they have built from scratch is a difficult process and often causes uncertainty and trepidation.

Knowing when the right time is to let go is a prerequisite for a successful exit. “When you’ve had your own firm for a long time, your identity is very much related to that. I’m proud of figuring out a solution that allowed me to walk away with unity at the top,” said one RIA owner.

“You’ve built a legacy and it will live beyond you… for your clients and your colleagues.”

Tim Kochis, Special Advisor, DeVoe & Company

Navigating the Journey

The word "decide" comes from the Latin word *decidere,* which literally means to "cut off" or "let go of other options." To decide something means to methodically consider each aspect of the situation and come to the best conclusion, letting go of other options that don't serve you as well.

Letting go of the past can be hard. Despite the aspirations related to how a transaction will improve the lives of clients, staff and owners, the fear of change in all its various forms will continually creep into a seller's consciousness.

Emotions are natural and will occur. Left unchecked, however, emotions can pull you off course. The key is to anticipate unexpected emotions. Knowing you *will* get dazzled about some elements one day, crestfallen by a candidate partner's actions on another, intoxicated by your worth the next, and then terrified by change soon after – knowing that you *will* be on an emotional rollercoaster will help you stay secure. Returning your attention to what is most important will ensure that you arrive at your ultimate destination.

By engaging with both the positive and the negative emotions of selling, you can create a measure of emotional comfort that will serve as a buffer when you feel challenged or uncertain. Advisors who proactively engage with the emotional side of selling will be most successful in completing a transition that is good for their clients, their staff and the owners themselves.

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PARTNER PROGRAM

About Allworth

One of the fastest growing firms in America, Allworth Financial is an award-winning, full-service RIA that specializes in retirement planning, investment management, tax planning and preparation, estate planning, and 401(k) management. Whether owners are looking to retire or seeking growth while simultaneously enjoying greater freedom and flexibility, with offices in every region of the country, Allworth's Partner Program delivers a refreshingly straightforward approach that helps principals reach their lifestyle and professional goals.

About DeVoe & Company

DeVoe & Company is a goal-based consulting firm and investment bank focused exclusively on guiding wealth management and investment management companies to a higher level of success. We provide consulting, M&A, and valuation services to help you accelerate the achievement of your business goals. Leveraging our team's 350 years of combined experience in RIA business consulting and management, we develop solutions tailored to your unique goals, needs and situation.

The wealth and investment management industries are highly dynamic and evolving at a fast pace. DeVoe & Company can help you better understand your options, determine your optimal path, and craft a plan for you to capitalize on the opportunities.

What We Do

Our mission is to help you achieve success on an accelerated basis. Our services fall into three main categories:

BUSINESS CONSULTING

M&A GUIDANCE

VALUATIONS

DEVOE
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Committed to creating transformational change for wealth management and investment management organizations.

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