Case study: There's no time like now for a Buy/Sell

Dennis R. was like many advisors – he thoroughly enjoyed his business, his clients and his staff. So much so, that even though he was several years north of 65, he wanted to continue in his role and would eventually retire "someday." Unfortunately for Dennis, "someday" showed up early one morning when he was diagnosed with an advanced stage of cancer.

While Dennis was a very astute and organized businessman, he hadn't thoroughly thought through the implications for what a sudden disruption in his practice could mean. The news of his illness caused him to put an accelerator on his contingency and business continuity plans as well as how to ensure his spouse and family would be financially able to continue their lifestyle. As is typical with many advisors, Dennis' advisory firm was his biggest asset in his portfolio and would be relied upon to protect his family.

Fortunately, Dennis had a close working relationship with another Raymond James affiliated advisor who was younger, but had a similar approach and philosophy to managing his advisory firm. The younger advisor, Brian M. had been talking with Dennis about these issues ongoing for the past several years since he often advised his small business owner clients of the need for this type of planning.

Because of these conversations, Dennis immediately called Brian to work out a buy/sell agreement with their local attorney. The agreement was negotiated based on a multiple of net revenue through an earn-out over time. Due to the lack of time for Brian and Dennis to work out all of the details and communicate what was happening to Dennis' clients, the transition of the practice wasn't optimal. Additionally, because there wasn't time to fund the buy/sell agreement with insurance, Dennis' heirs did not receive the full value of the business at the time of the triggering event, rather, they received a declining portion of it over time.

For Brian, this was an emotional event having to negotiate financial matters with someone who was rapidly declining in health. However, since he was going to assume the risk of taking on these new clients and having to pay out over time for them, he needed to ensure that he protected himself as well. Additionally, because Dennis managed his practice as "revenues minus expenses equals owners' compensation", rather than on an operating profit basis, it was very difficult for Brian to come up with an accurate valuation for what the business was worth.

Brian's lessons learned in this process and advice he has for advisors is to plan ahead. These things are going to happen and the more planning and preparation you do increases your choices and flexibility, something that is extremely important when action is required. Additionally, Brian notes that succession planning is becoming more and more critical as clients are asking for this. They often have multi-year and multi-generational financial plans that are being managed by an advisor and they increasingly want to know how advisors' have planned to ensure continuity. Brian says it all comes down to client care. If this isn't something that you've prioritized for yourself, then think about the business implications for your practice as clients make decisions for the management of their long-term financial plans.