

Ensuring the future: Strategic transition planning for RIAs

From internal succession to finding an external partner, helping firm leaders prepare for possible pathways to long-term success.



An article by Fidelity Investments
in collaboration with:



John Furey
Managing Partner, Advisor
Growth Strategies



Brandon Kawal
Partner, Advisor Growth
Strategies

Strategic transition planning: Lead with intentionality and mitigate risk

In the wealth management space, RIA firm leaders and advisors continually espouse the benefit of long-term planning to their end clients. Unfortunately, many don't heed their own advice. Far too often, firm owners don't have long-term plans to ensure the longevity of their businesses and the continuity of their clients' long-term financial plans.

For RIA firm leaders, transition planning should be a deliberate and strategic process. Leaders need to identify the ideal future for the businesses, either operating independently and transitioning the firm to next-gen contributors or searching for an external partner to support succession planning. Regardless of which path the firm identifies as their ideal future, designing and implementing competitive compensation and partner equity systems to engage and motivate team members is a crucial step. Succession planning is a critical component of the firm's strategic plan to minimize risk and disruptions, maintain business continuity, protect clients, and continuously maximize the value of the business.

This paper will highlight:

- The evolving RIA landscape
- Weighing the case for internal succession versus an external sale
- Staging a firm for success, no matter the path

“Most founders we work with are being asked about their succession plan by both their clients and team,” says John Furey, managing partner at Advisor Growth Strategies. “Identifying an ideal future and putting the contributors and processes in place to execute on it gives clients confidence about the stability of the firm.”

However, not all firm leaders realize how important it is to get a head start on these decisions, which can lead to risk for themselves, their associates, and the clients they serve. RIAs should understand that an external partner search process generally takes six to 12 months to get organized, understand the M&A landscape, run a partner search process, and close the transaction. Buyers also expect selling partners to remain actively working in the business for at least three years.

Fortunately, there are options firm leaders can explore when considering the next stage of their business.

The RIA landscape is changing

According to Advisor Growth Strategies, RIAs are shifting from reactive to proactive planning as they combat various challenges in the wealth management space, including valuation increases, financing, and talent management. “It pays to plan for a potential external transaction,” says John Furey, managing partner at Advisor Growth Strategies. “In our experience, firms that structure their business in a way that is more attractive to a buyer can realize 20% or more of a valuation increase and improved terms in a transaction. The key elements to focus on are growth, client demographics, and team alignment.”

Fortunately, there are a myriad of options available to firm leaders as they ponder their next steps. The rise of fully integrated platforms offering expanded services—such as estate planning, investment banking, tax strategies, and more—can help support RIAs considering a transition (or transaction). There are also new capital sources flooding the market—such as private equity, platform acquirers, and specialty investors—that are shaping transition options.

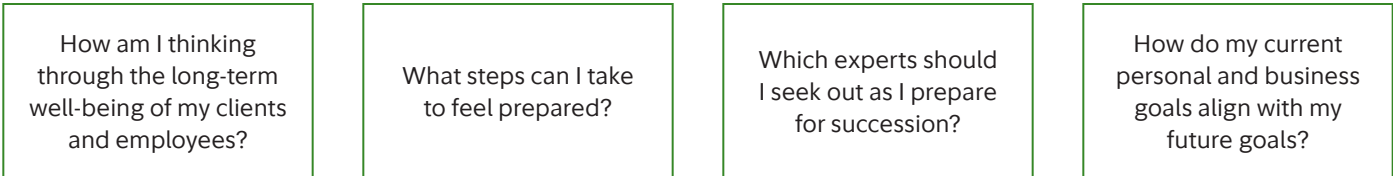
Failing to plan means planning to fail

Scenario: An advisor, the sole proprietor of his practice with ~\$250M AUM, fell ill unexpectedly. Without a succession or contingency plan in place, his clients and family were left in despair.

Outcome: Clients were left vulnerable, and the advisor’s spouse and family received nothing from the business.

For illustrative purposes only.

EXHIBIT 1: Key questions for firm leaders as they consider their next steps



Let's explore the pros and cons associated with each of these options.

The case for internal succession and next-gen leadership

According to research conducted by Advisor Growth Strategies, 63% of firm leaders prefer internal succession for the following reasons:¹

- **Legacy preservation:** Many firm owners have worked tirelessly to build their businesses. Passing their business to a next-gen leader who's familiar with the operation may appeal to firm owners who wish their legacy and vision to continue, even if they're no longer at the helm.
- **Long-term benefits for clients:** In the event of an internal transition, disruption to existing clients can be limited through firm culture continuity.
- **Opportunities for current associates with leadership potential:** Developing next-gen leaders can help keep talent at the firm. Additionally, if potential for succession and ownership exists, development programs can aid in attracting new talent as well.



of firms with \$1B–\$5B in AUM have next-gen leaders well prepared to take over firm management.

Source: 2024 Fidelity RIA Benchmarking Study

However, there are obstacles to consider when pursuing an internal succession plan.

Next-gen leaders may face challenges while waiting to take over the business, including affordability issues and balancing personal income with equity commitments. For firm leaders, next-gen leadership training can also be time-consuming and expensive. In certain instances, the professionals that drive business development and revenue growth tend to be the founders, while next-gen leadership do not have the skills or track record to drive future client growth.

Plus, firm leaders may be leaving money on the table due to the much higher multiples that come with external transitions:

Median EBITDA for **external** transition

11x

Median EBITDA for **internal** transition

7x

Source: Advisor Growth Strategies, The RIA Deal Room, 2025.

If firm leaders pursue an internal succession strategy, they need to consider the following three steps to set themselves up for success to cultivate an engaged next-gen (G2) leader pipeline:

Step 1: Identify right-fit next-gen talent

Firm leaders need multiple G2 candidates to buy equity from current partners. Therefore, it's important to cultivate a group of potential successors, given it is not likely all of them will end up becoming buyers. Having several contributors that may be on an equity track helps make internal succession feasible. "With multiple next-gen buyers required to internally transition equity from each founder, firms should be actively recruiting and developing contributors with an eye toward future partnership, especially if there is strong conviction to keep the firm independent long-term," says Brandon Kawal, partner at Advisor Growth Strategies.

Step 2: Identify the right equity model for the firm

There are a variety of models for firm leaders to consider, including buy-in programs for capital interest (voting or non-voting shares) as well as grant programs offering instruments like phantom stock or profit interests. It's also important to document criteria for equity participation so firm leaders and associates alike are aligned. To successfully transition the firm internally, a buy/sell of capital interests is required. Profit interests and phantom stock can be effective methods to incentivize and retain key contributors, but they do not provide a path to liquidity for founders, so they are an incomplete equity system if internal succession is the desired outcome.

Checklists for identifying and engaging next-gen talent

Actions for firm leaders

- Identify what skills and traits are important to achieving the firm's business goals. Firm leaders can view this as an opportunity to devise criteria to attain partnership in concert with the team that provides clear guidance for each person's career.
- Consult with the team (not just current partners) on potential partner criteria. This collaboration will always yield the best outcomes for each unique practice.
- Provide draft partnership criteria for potential and existing partners to comment on.
- Finalize criteria.
- Tailor for each member (advisor criteria vs. non-advisor criteria).
- Review criteria/process at least annually and revise as needed.

Criteria for right-fit next-gen partners

- Tenure with firm, years of experience in the industry
- Cultural alignment with team/clients
- Leadership capabilities and desire to take on the operation of the firm in addition to current professional role
- Contributions to growth
- Willingness and ability to purchase equity from current partners
- Long-term vision for the future of the firm

Step 3: Start early to give their transition the best possible chance for success

Realistically, succession planning requires a 10- to 15-year horizon, much more than many firm leaders expect. The longer horizon allows for:

1. Next-gen buyers to start buying in at lower valuations (ahead of growth)
2. Participation in distributions to increase income and fund future purchases
3. The spreading out of cash-flow impact over many years and/or many buyers

For example, if your current firm valuation is \$10M, it would be difficult for one or even two next-gen buyers to fully purchase the equity in the immediate term. However, if two next-gen buyers each purchase 10% (\$1M) this year, and then in a few years purchase an additional tranche (and perhaps there's a third buyer in a few years), it becomes more feasible to take down the full value of the equity internally, even if the valuation grows over time.

Case study 1: Internal succession

Partners at ABC Wealth Management, an RIA with \$800 AUM, want to transition the firm internally while still realizing a return on their life's work. Two founding partners are looking to exit and realize liquidity for their equity value in the next five years.

AUM	\$800M
x Average fee	0.75%
= Revenue	\$6M
– Owner compensation (\$250K each)	\$1M
– Non-owner professional compensation ²	\$550,000
– Team compensation	\$750,000
– Overhead	\$1.5M
= EBITDA	\$2.2M
Internal valuation (\$2.20M x 7)	\$15.4M
5% equity valuation	\$770,000
Annual payment (0% down, 5% interest, 10-year term))	\$99,719
Pretax distribution	\$110,000
Post-tax (40%) distribution	\$66,000
Out-of-pocket cost in Y1	\$33,718

For illustrative purposes only.

- **Leadership structure:** 4 partners: 3 founders (35%, 30%, and 30%), 1 G2 (5%), plus 2 additional G2 leaders who could become partners in the future
- **Revenue:** \$6M, \$2.2M EBITDA (profit), low growth
- **Key issue:** Are buyers willing and able to buy 65% over the next five years to facilitate the partners' exit?

Based on the table at left, even with favorable terms (0% down, 5% interest), next-gen buyers will be coming out of pocket to cover their payment to purchase equity from founders looking to exit. If the firm is growing, and distributions are likely to expand, this may be more acceptable, but few next-gen contributors would be eager to pay an additional \$33K per year for 10 years to purchase a small equity stake. When considering the full 65% of equity the partners are looking to sell, the numbers become dauntingly large for next-gen buyers.

This is a common scenario that leads firms to explore the external market to enable succession planning. The right partner will provide liquidity for founding partners, while providing equity and upside for next-gen advisors looking to continue to grow their careers.

How could ABC Wealth Management improve their valuation ahead of an external sale?

- Improving through organic growth
- Increasing team capacity through processes and professional development

The case for external succession: M&A and multiples in a new market

The RIA M&A market remains extremely active. 2025 has comprised the strongest January since Fidelity started tracking M&A in 2015 (both for activity and purchased assets) and the strongest March on record (for activity). New entrants are continuing to make their way into the space—in 2024 alone, 32 firms picked up their first-ever firm through M&A deals—and private equity remains a prominent player in the landscape.

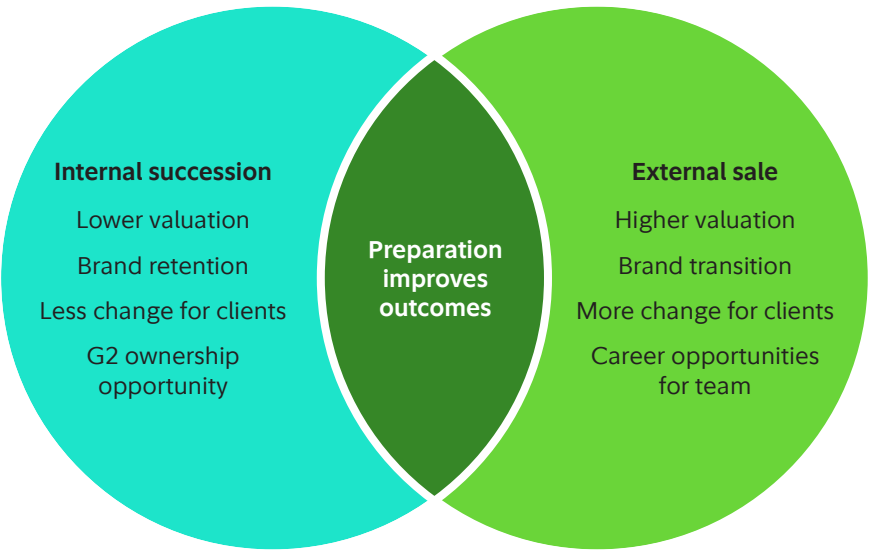
The benefits for external succession are plentiful:

- **For clients:** Clients may benefit from larger platforms and expanded capabilities, helping to improve ease-of-use, communication, investment opportunities, and support.
- **For team members:** Advisors and associates alike may be able to take advantage of enhanced career opportunities that emerge as a result of an external transition.
- **For leaders and key contributors:** There are opportunities to realize firm valuation goals while staying involved. In most transactions, the deal provides key contributors with access to equity. Additionally, for multi-partner firms, external succession can sometimes solve for varying partner preferences and timelines. Firm leaders may also retain the ability to focus on the parts of the role they like (such as managing client relationships) while offloading business management responsibilities.

However, just like internal transitions, there are potential drawbacks and obstacles to pursuing an external strategy, including:

- Balancing client relationships with new firm dynamics
- Alignment of talent as a result of an evolved organization
- Misalignment in firm cultures between merging entities (including lack of or less entrepreneurial opportunity for G2)
- Loss of control or firm identity

EXHIBIT 2: Internal succession versus external transition



To help facilitate a successful transition, firm leaders need to consider the following three factors:

Factor 1: The importance of aligning with an external partner's vision and values

It is imperative that the work is done upfront to ensure alignment between the firm leader and external partner regarding culture, investment methodology, and service offering. Before discussing “the numbers,” AGS recommends ensuring alignment strategically and culturally with the potential partner.

Factor 2: The role of capital partners

- Capital partners, including private equity and family offices, make minority investments in large RIAs (~\$8M+ of EBITDA). These firms provide more than just capital. Additional resources include inorganic sourcing and transaction support, governance and leadership assistance, systems enhancements for operational efficiency, and accountability and goal setting for team performance and profitability.
- When partnering with PE firms, many advisory firms cite the strategic partnerships and business strategies as major benefits (in addition to the financial backing).
- Most transactions in the RIA space are happening with integrators as the buyer. Almost all of these integrators have a capital partner behind them, but sellers should understand that the capital partner largely operates behind the scenes, with the integrator's management team running the day-to-day operations of the firm and responsible for setting firm vision and strategy. Firms often seek new capital partners every five to seven years, which provides the potential for liquidity to any equity holders of the firm.

Factor 3: The transition doesn't stop once the transaction is complete

- In some ways, the real work has just begun. Firm leaders need to address client and team concerns about continuity post-transaction to ensure the future success of the firm.
- Selling partners generally execute three- to five-year employment agreements with the buyer, and are expected to continue supporting clients, managing the team, and growing the business.

“Founders are often concerned about client attrition when transitioning the firm, whether internally to next-gen or externally to another firm. When teams are deliberate about the transition, starting early, ensuring alignment with new leadership, and thoughtfully messaging the change to clients, we see very few client departures,” notes Kawal.

Case study 2: \$1B firm seeking a partner for the future

This multi-partner (founders and several next-gen) RIA firm recently reached the \$1B milestone, but when evaluating what it would look like to grow the firm to \$3B, they decided that they would prefer to partner with a firm that has already built out the centralized platform resources, rather than build it themselves. The investment required in technology, team, and growth channels felt daunting to the team as they considered building the firm beyond this inflection point. The founders had a 5- to 10-year horizon in the business. They wanted to start early on succession planning and ensure that they were able to spend their time on the parts of the business they enjoyed the most (client relationships) while offloading business management responsibilities (compliance, finance, HR, operations) to a partner.

- **Firm metrics:** \$1B AUM, \$6M revenue, \$2.5M EBITDA
- **Total headline valuation:** 17x EBITDA, \$42.5M
- **Transaction structure:** 7.5x cash at close, 3.5x equity at close, 3x retention payment after Y1, potential earnout 3x based on growth in the 3 years post-close

AUM	\$1B
Revenue	\$6M
EBITDA	\$2.5M
Headline valuation	\$42.5M
Cash at close	7.5x
Equity at close	3.5x
Retention (Y1)	3x
Earnout potential (Y3)	3x
EBITDA	17x

For illustrative purposes only.

“Before this team started having conversations with potential buyers, they needed to internally identify what an ideal partner would look like,” says Furey. “Founders and G2 partners had different perspectives and preferences. It was critical to agree on the ideal profile prior to starting a partner search so that, as the team met buyers, there was alignment on the agreed-upon characteristics.”




Staging your firm for success: The importance of a strong culture of organic growth, no matter the transition path

Organic growth is the leading factor for firm attractiveness. According to Advisor Growth Strategies, firms with >5%, ideally 10%, or more annual organic growth significantly improve market attractiveness. Growth culture reduces perceived business risk for both internal and external stakeholders. “As the M&A market evolves, many buyers are being more selective,” says Brandon Kawal. “Higher growth firms with talented teams tend to drive premium valuations that can exceed two to four times the median EBITDA multiple. It’s becoming clearer that it pays to nurture the growth within your firm.”

Firms can help enhance their attractiveness (for either their internal next-gen leadership group or an external partner) and drive entity value by focusing on the following checklist.

By being planful, building a scalable business model, and ensuring alignment between leadership goals, client needs, and team aspirations, firms will be well-positioned for the next stage of their business, regardless of the path they choose.

What to get right to grow

-  Shoring up gaps in revenue, technology, and team stability to “stage your firm for successful transactions,” whether internal or external
-  Focusing on the compensation plan to increase attraction, retention, and development of advisors, including building an equity culture that demonstrates the firm is committed to both clients and the firm’s future
-  Having a strong, diversified book of business, and not relying too heavily on older clients who are decumulating assets



Authors

John Furey

Managing Partner, Advisor
Growth Strategies

Brandon Kawal

Partner, Advisor Growth
Strategies

*Thought Leadership Director
Adam Tokarz provided editorial
direction.*

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Endnotes

¹ 2025 RIA Survey, AGS, n = 68.

² Non-owner professional comp includes the two additional G2 leaders/advisors. Team comp includes all support/operational/administrative compensation.

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