DeVoe CapitalWorks™ Case Study

Multi-Stage Succession Gives RIAs Flexibility, Personal and Financial

***CapitalWorks** provides guidance about capital and lending solutions to RIAs. With 30+ solutions, we seek to help RIAs understand the various options and how capital and lending can be transformational. This case study is based on an actual situation that one of the providers on our platform executed.*

Live Oak Bank, a participating lender in *CapitalWorks*, may be best known for acquisition financing. In addition, the Bank often partners with firms to create long-term succession and growth strategies. Thinking long-term allows advisors and their firms to create flexible, multi-step strategies for smooth transitions.

Here's an example: Over the past few years, Live Oak worked with an RIA to execute a five-year succession strategy in three stages. The financing is also taking place in three stages, resulting in three loans. The firm—let's call it G1 Wealth Management— started out with two majority owners, one of whom wanted to sunset over five years. In addition, the owners wanted to get equity into the hands of one of their next-generation advisors. The strategy G1 developed, with Live Oak Bank's help, included restructuring their existing debt and funding the purchase of equity for their next-gen advisor. The third and final loan will be finalized in 2020 and will finance the buyout of the retiring owner's equity.

Multi-Stage Loan Process

The initial loan was made to refinance existing debt on G1's balance sheet. The RIA took an SBA loan, which gave the firm a 10-year term at a below-market fixed rate. The longer term resulted in reduced monthly payments but also amortized completely—that is, there was no balloon payment at the end. (As with mortgages, not all business loans pay off all their principal over the life of the loan.) The low loan payments also created capacity for G1 to take out additional debt in the future, if needed.

G1's second loan was what Live Oak calls a "partial equity buy-in." This loan was extended directly to one of the firm's next-gen advisors so she could purchase 15% of the firm from one of the two owners. A partial equity loan is not an SBA loan—it's a conventional loan with a seven-year term. This loan, too, would completely amortize during its term. Once again, the advisor chose a fixed interest rate. The partial equity loan has four advantages: The retiring owner could cash out part of his equity; he could cut back from running the firm; and the new owner had a chance to gain some value from committing to ownership as well as gaining time to grow into her new role

The third and final step in G1's plan is expected to take place in 2020—the final buyout of the retiring partner. G1 as a firm can take a loan for a stock redemption and buy back the owner's (a favorable strategy for tax purposes) or the new partner can purchase them directly from the retiring owner.

G1's succession plan is a great example of how early planning can create opportunities for the firm to transition ownership internally while allowing advisors to phase out their involvement with the business over time. Live Oak and G1 created the plan and analysis for on all three stages, along with their financing, up front, which gave the advisors the confidence that they would be able to execute on the entire plan.

Why DeVoe CapitalWorks

We've identified the capital providers who focus on the wealth management industry, continue to monitor the new players and solutions, and then connect it all back to the needs of a given advisor. You will get connected to a funding source quickly so you can stay focused on serving your clients.

Getting Started

For more information or to begin the process, call us at **415-813-5066** or send an email to: **info@devoe-co.com**.

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