

# Growing & Maximizing Your Firm's Valuation

M&A Data and Trends for Independent RIAs



# Presenter



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President



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## SRG

Boutique succession consulting firm



## Experiences

850+ succession/exit plans  
Nearly 5,000 business valuations



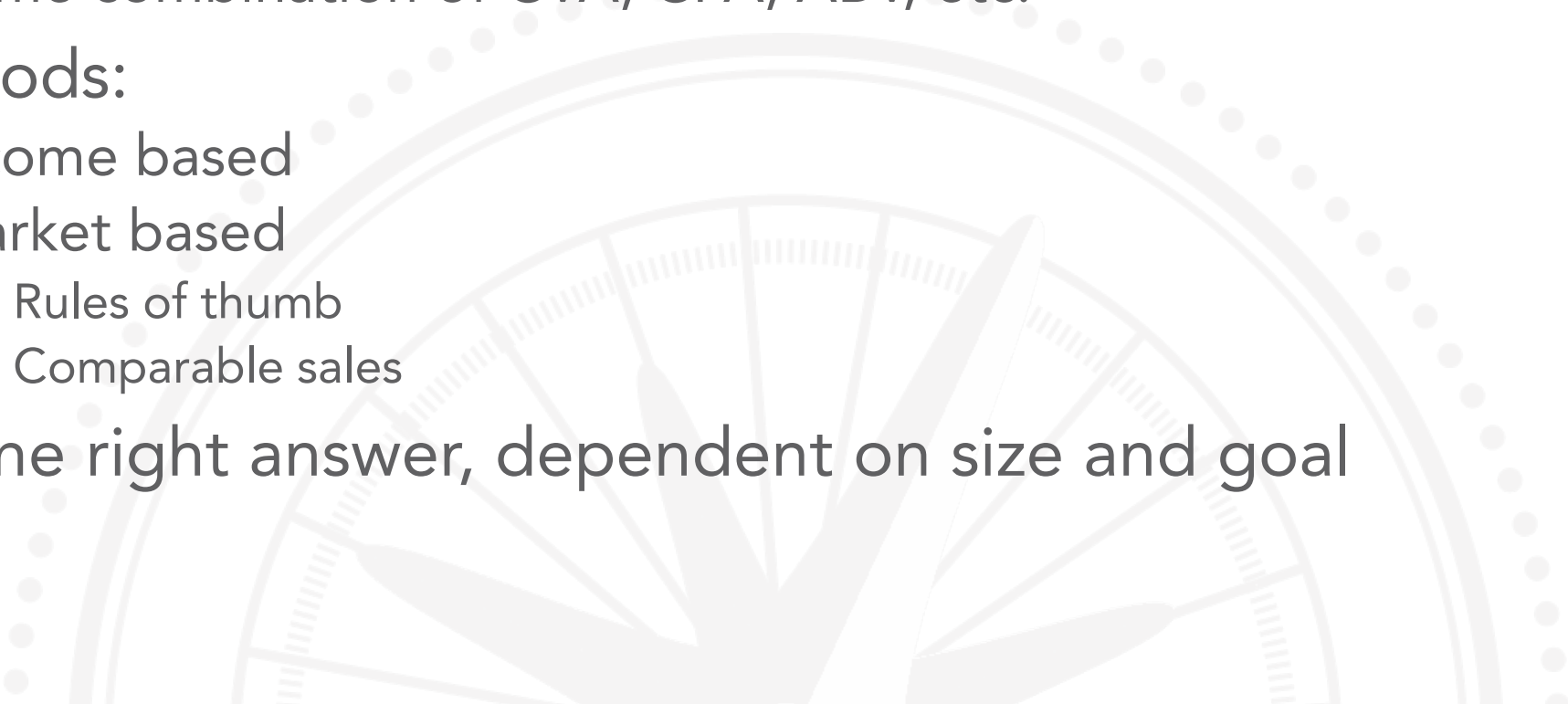
## Data Sets

Registered Investment Advisers  
Hybrids, Reps, & Agents  
\$22+ Billion AUM Transacted  
200+ Deals


# IN versus ON



# Determining Enterprise Value

- Required experience:
    - Industry knowledge/experience
    - Some combination of CVA, CPA, ABV, etc.
  - Methods:
    - Income based
    - Market based
      - Rules of thumb
      - Comparable sales
  - No one right answer, dependent on size and goal
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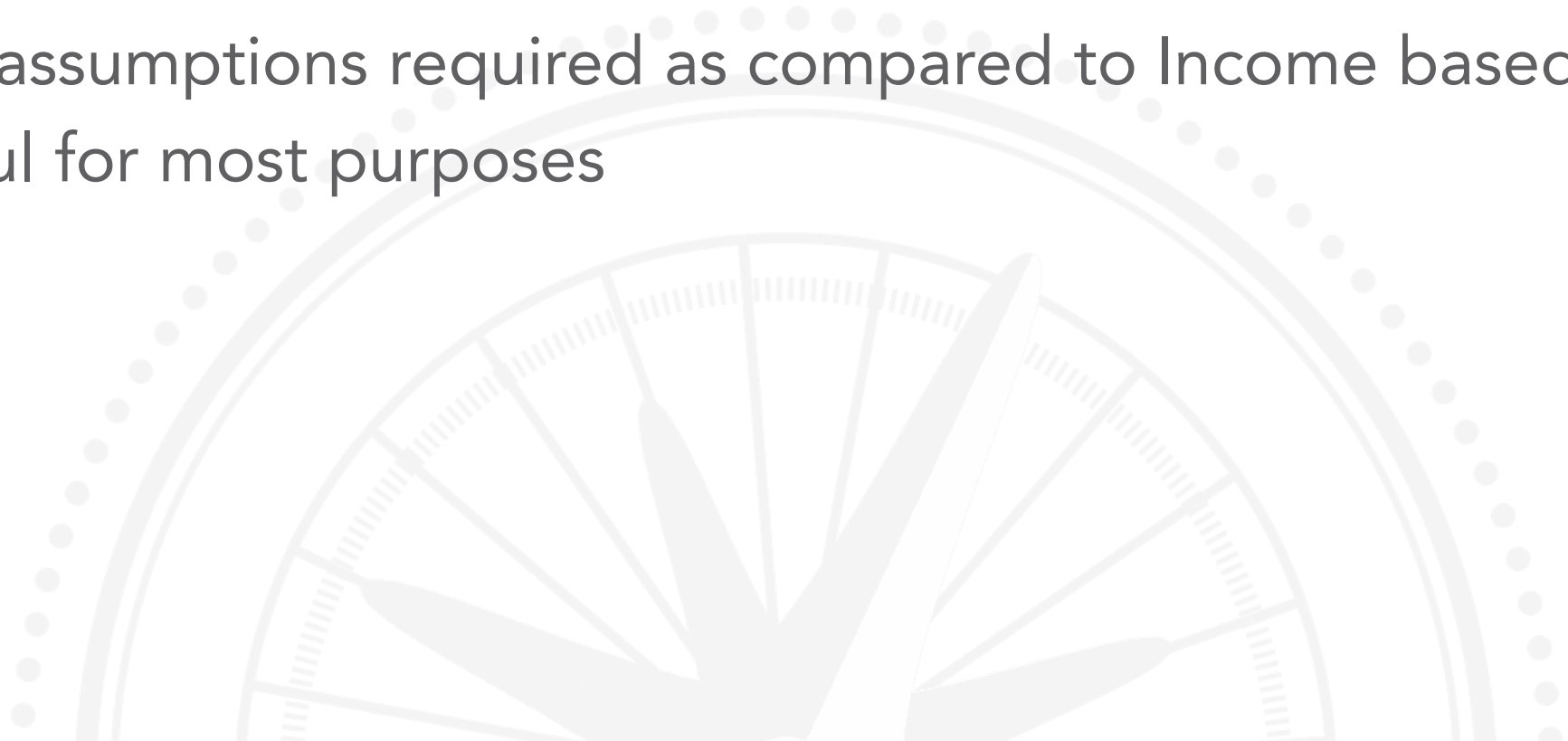
# Income based valuation

- Values the earning potential of the firm
  - Useful for larger firms, where entire enterprise would be retained (firms with \$3 - 5 million + in annual billings)
  - Great for internal succession purposes
  - More subjective than market based valuation
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# Market based valuation

- Based on actual deals
- Requires firm to have data
- Less assumptions required as compared to Income based
- Useful for most purposes



# Market Status - 2018

- External Financing - Increased in Usage
  - 71.2% of deals used bank financing
  - 22% of deals were all cash
  - 75.5% Avg. down payment when lenders are used
- Competitive Landscape
  - 3.5 offers per practice
  - 48:1 (Buyer to Seller Ratio)

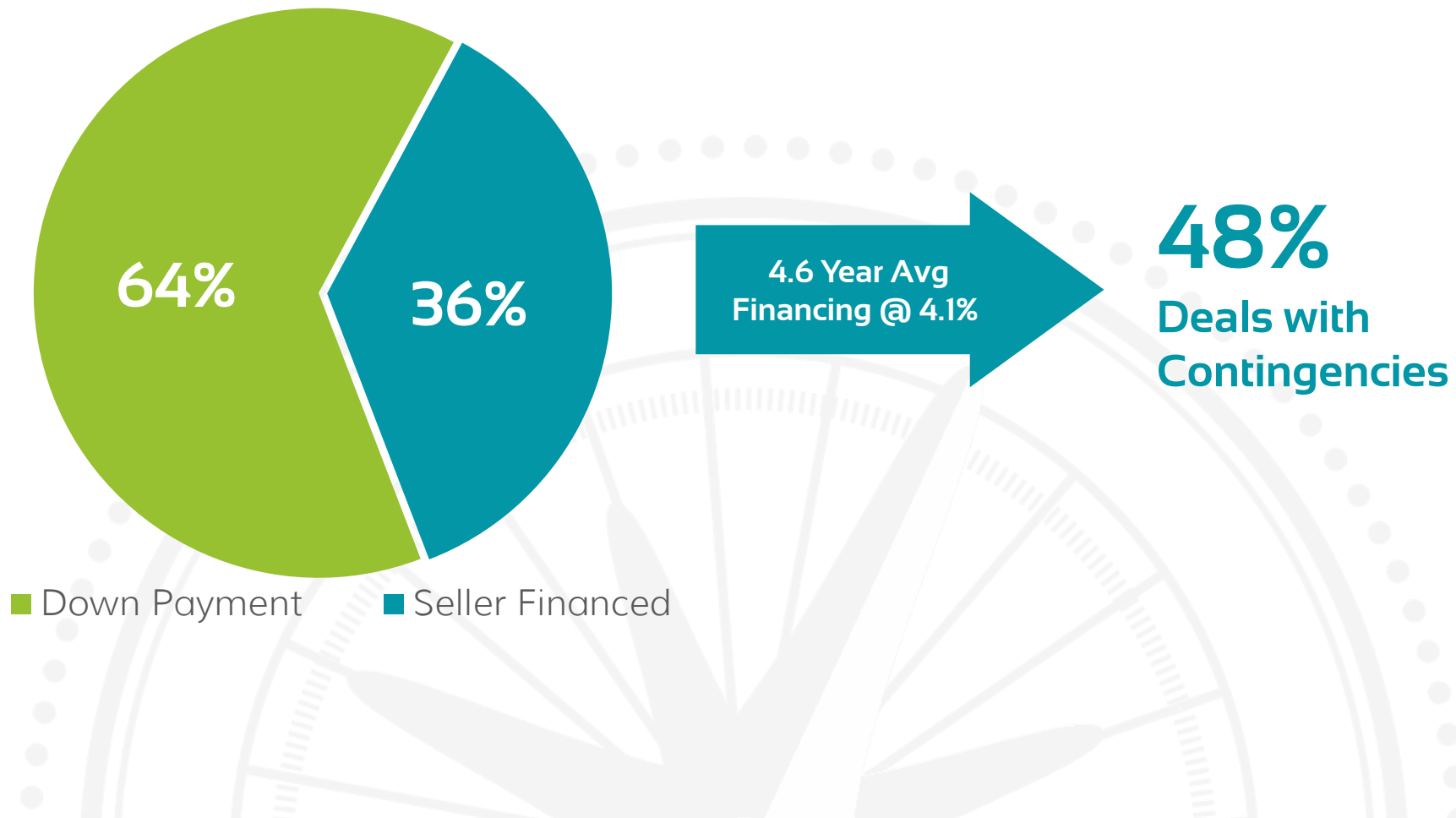




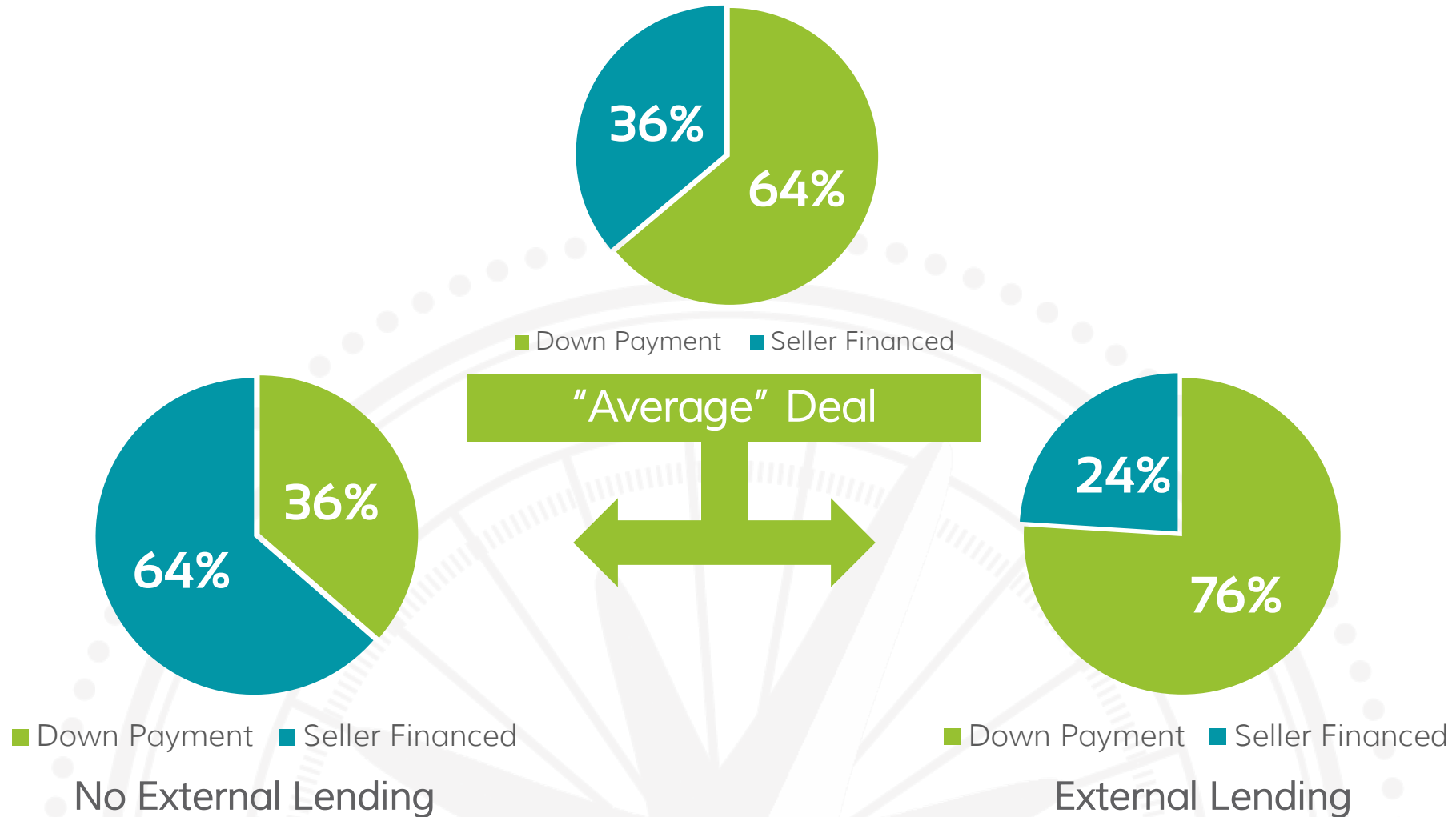
# Market Status

- External deals on the rise for smaller practices
- Contingencies remain common --- 48% of all deals
  - Lookbacks
  - Escrow releases
  - Payment relief clauses (seller financing)
- Compensation models evolving – improving enterprise value
  - Historical: EWYK
  - Contemporary: Salary + Bonus + Profit Share Pool

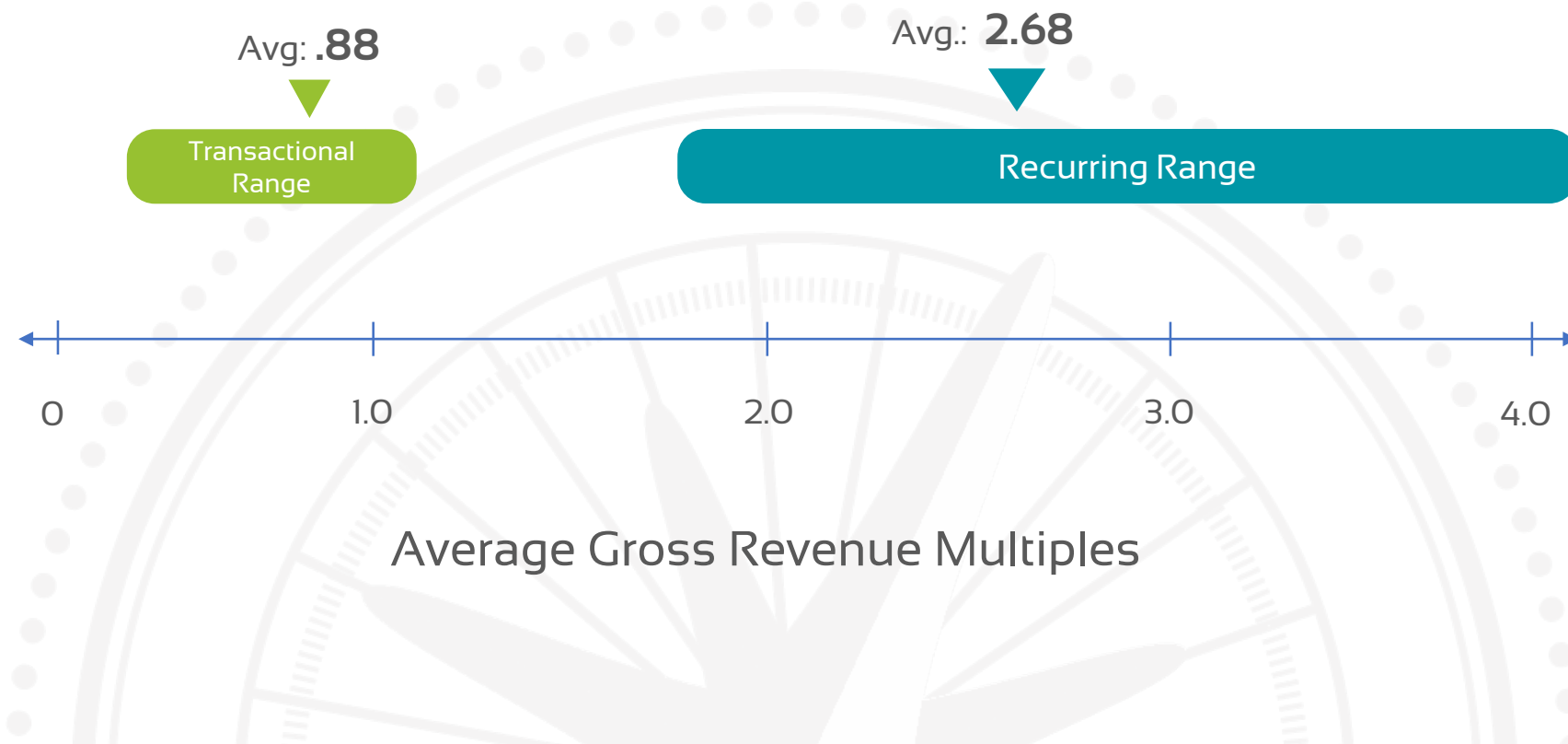
# 2018 Average Deal Structure



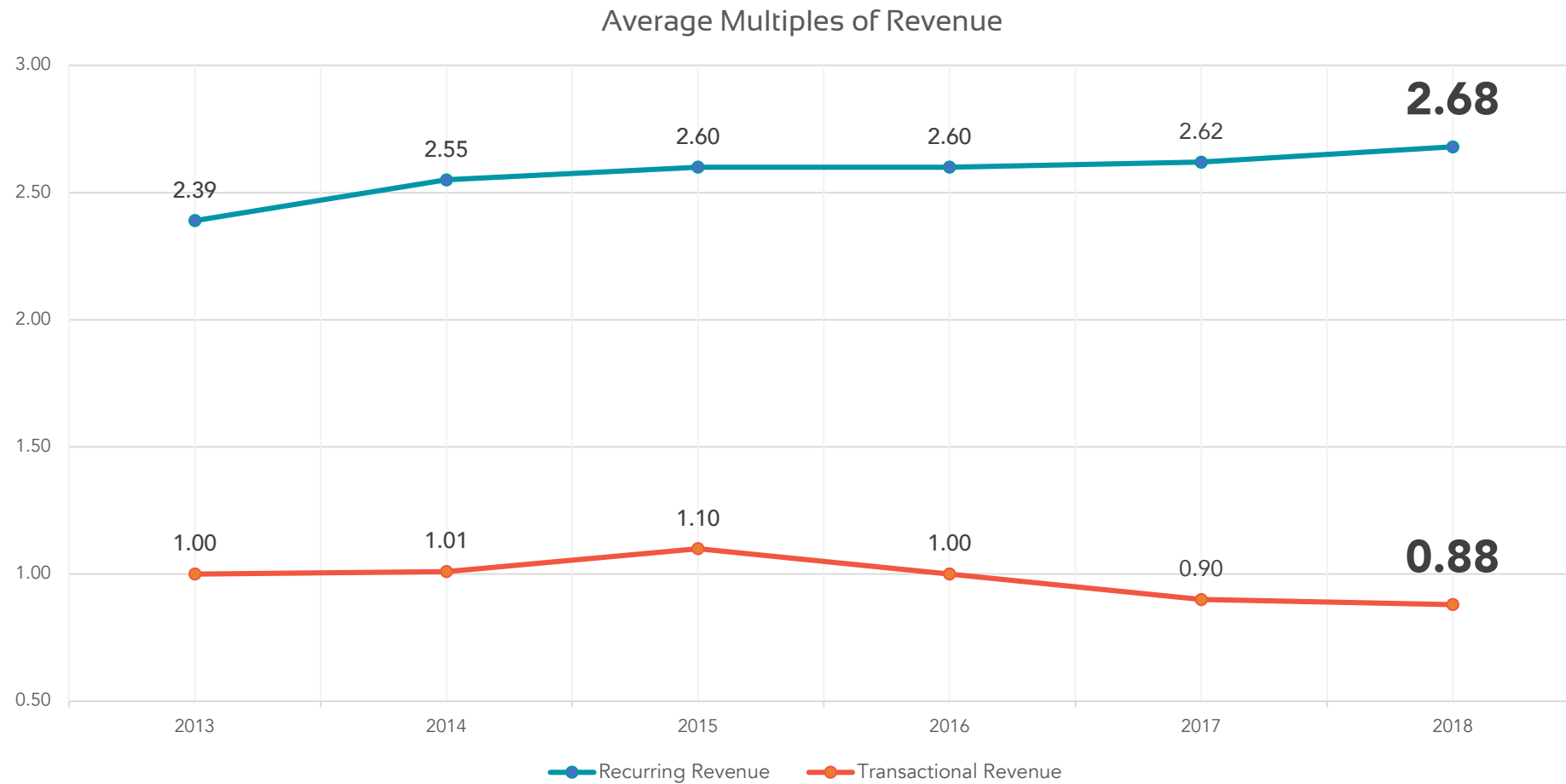
# Behind The Average



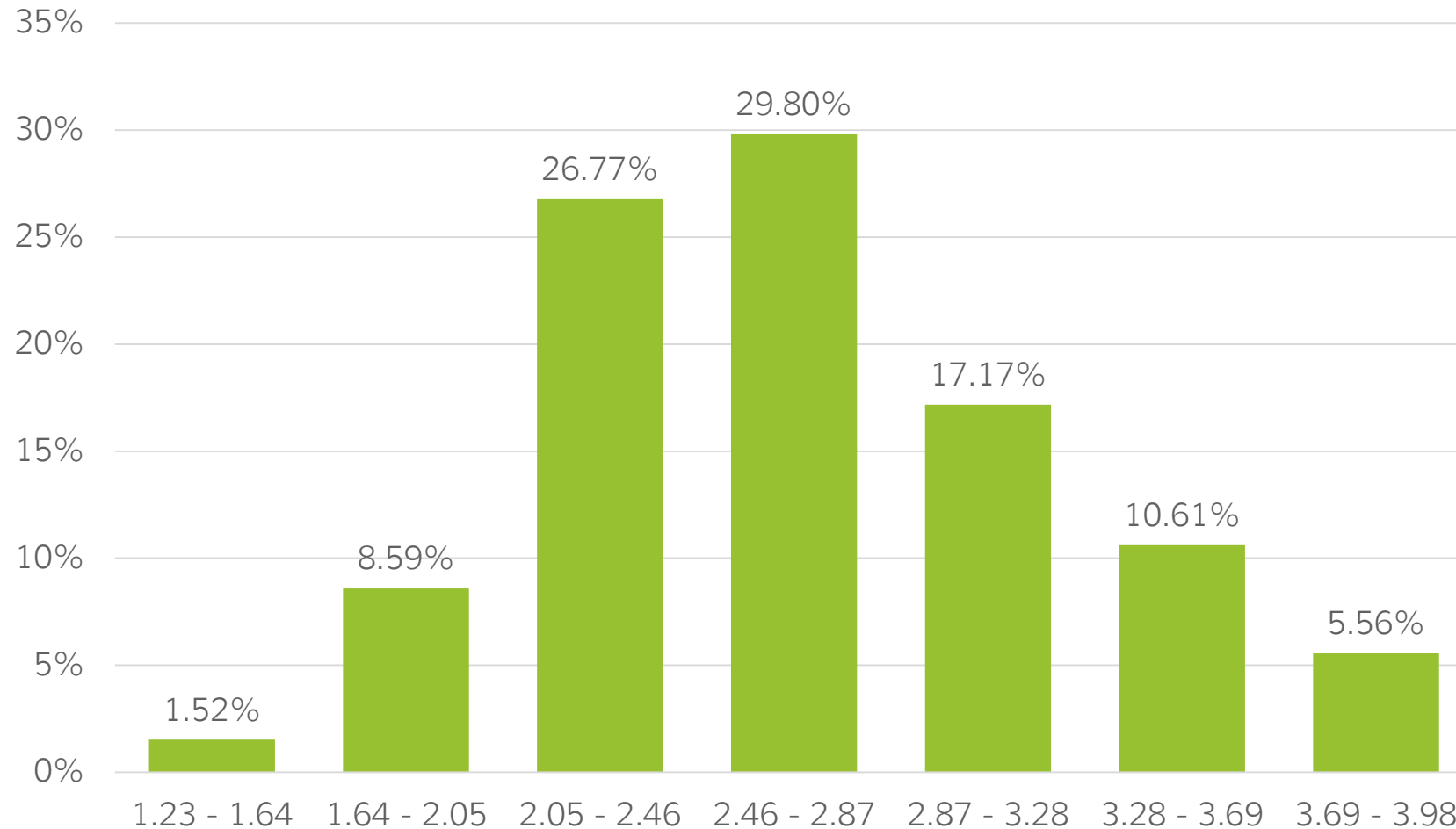
# 2018: Valuation Trends & Updates



# 2018: Valuation Trends & Updates



# Frequency of Multiples



# By The Numbers



Highest Recurring Multiple  
- 2018



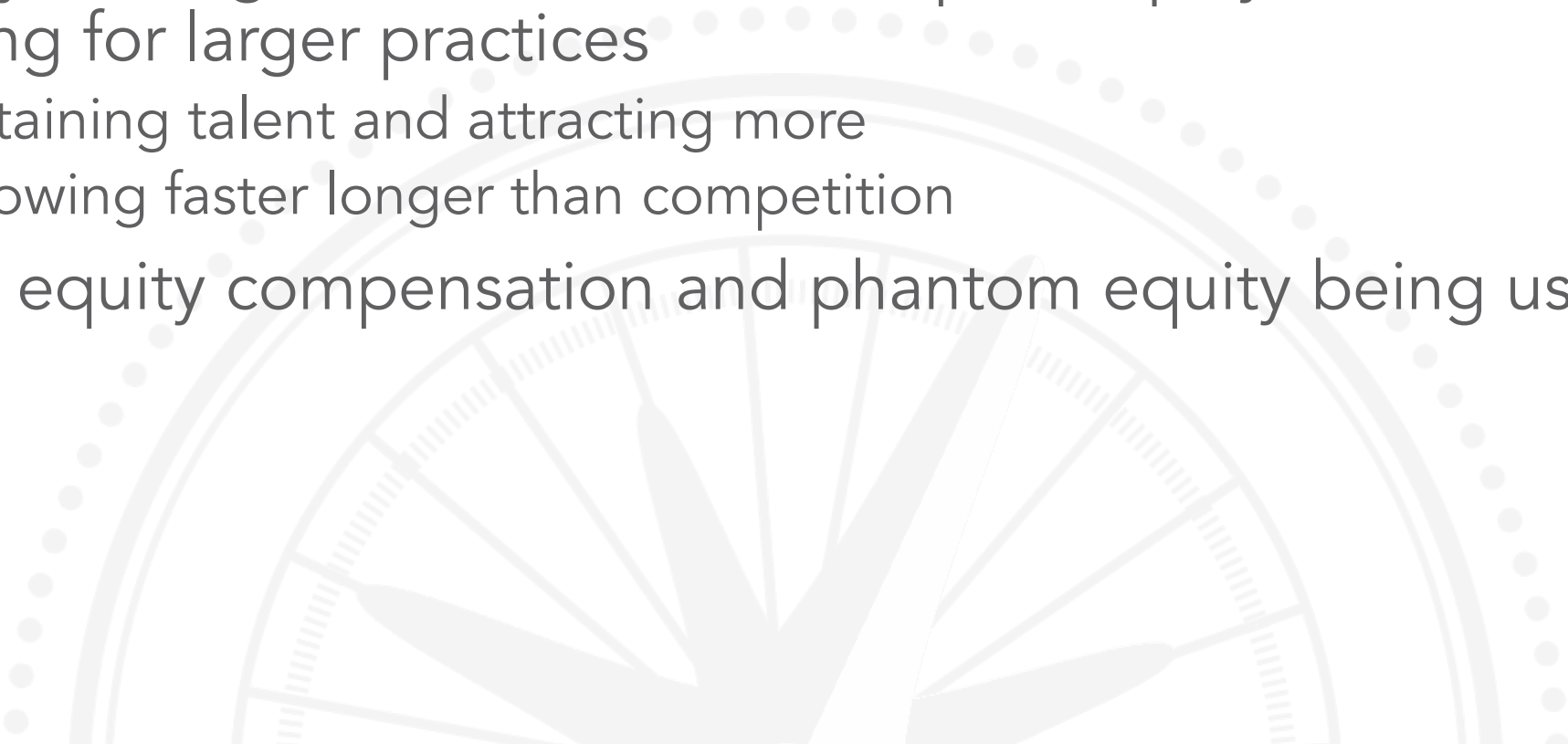
Deals With  
All Cash



Deals With  
No Claw-Back



# Market Status

- Cash deals on the rise, 22% of all deals last year
  - Equity sharing and use of more complex equity structures surging for larger practices
    - Retaining talent and attracting more
    - Growing faster longer than competition
  - More equity compensation and phantom equity being used
- 



# 5 Key Value Drivers

Building Enterprise Value

# Value Building Tip #1

- Be predictable
  - Increase recurring revenue
  - Diversify revenue sources
    - Fees, planning, insurance, etc.
  - Standardize



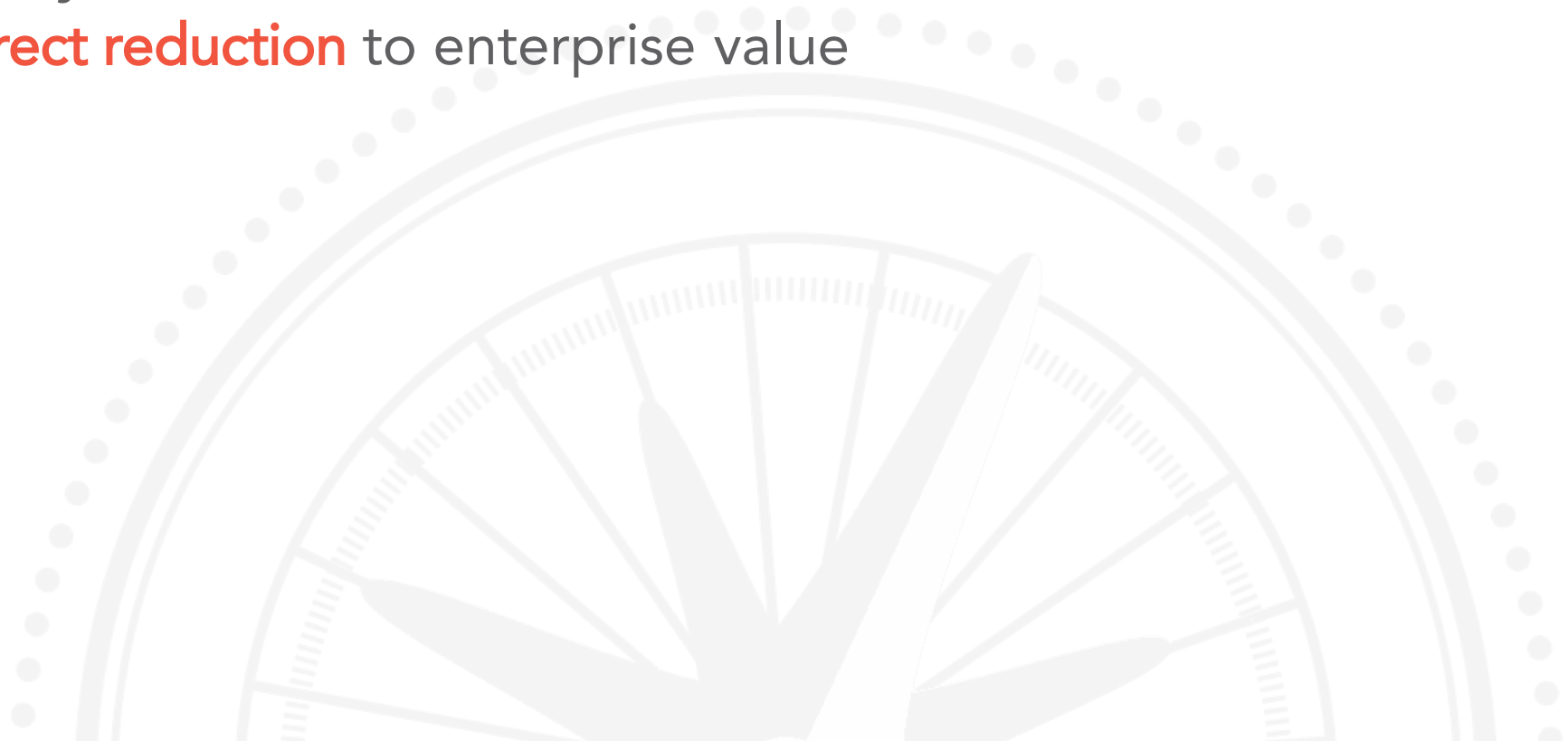
# Value Building Tip #2

- Efficiency:
  - Profitability
    - Control fixed costs
      - Referral fees into perpetuity
      - Splits with producers (EWYK Model)
      - Long-term obligations
    - Pay your people “right”
  - Ratios
    - Revenue and AUM per client
    - AUM per professional



# Compensation and Enterprise Value

- Compensation is key to attracting and retaining talent
- Industry norm: EWK
  - **Direct reduction** to enterprise value



# Compensation and Enterprise Value

- 1.0 Version: EWYK
- 2.0 Version: Enterprise Comp Plan
  - Farmers and Hunters
    - Farmers tend to the homestead (service and operations)
    - Hunters bring in business
    - Hybrid
  - Farmers and hunters
    - Salary + Bonus + Profit Share Pool
    - Builds enterprise value

# Value Building Tip #3

- Growth
  - Consistency
  - Sustainable sources
  - Quantify future potential
- Growth of:
  - Revenue
  - Assets
  - Clients
- Target growth?





# Value Building Tip #4

- You most valuable asset?
- Multigenerational book
  - Age of client base
  - Concentration of assets with senior clients?
  - Multigenerational business = multigenerational clients

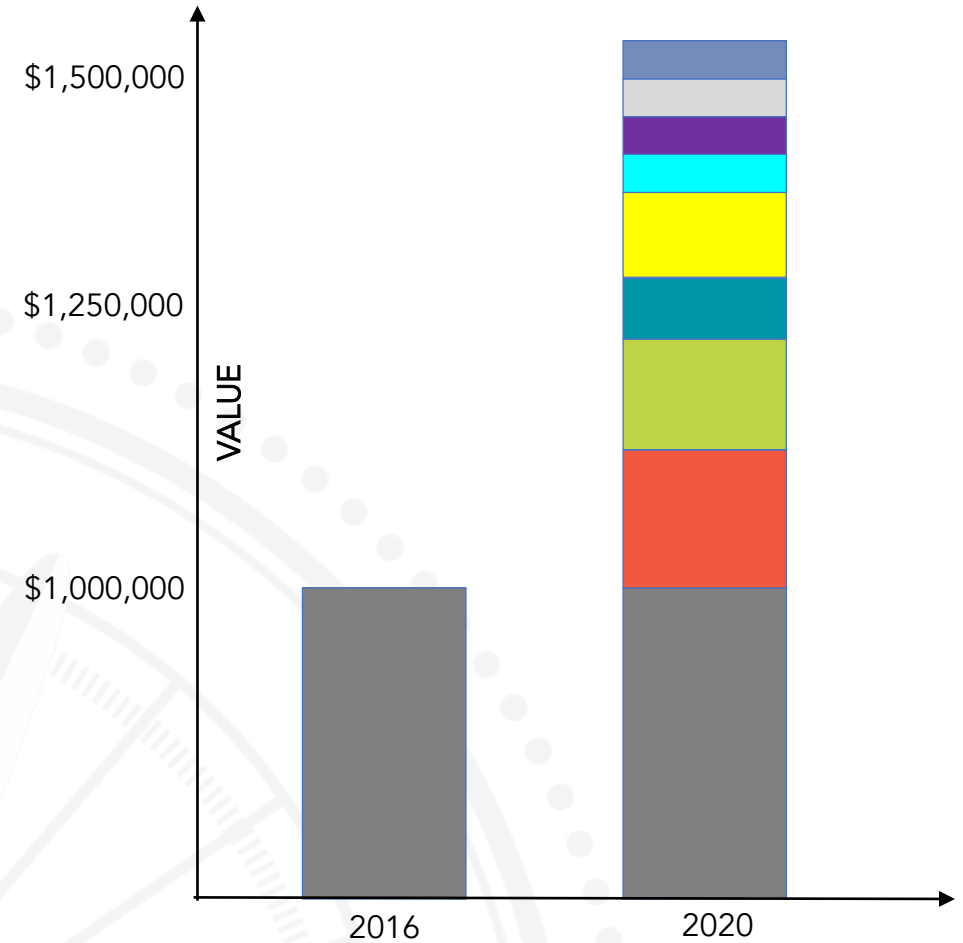
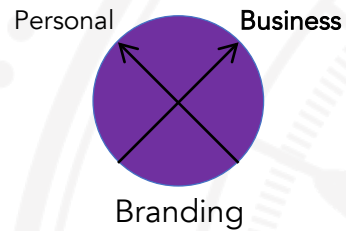
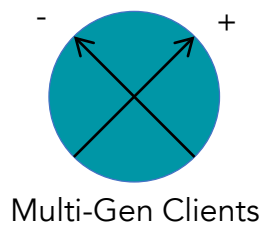
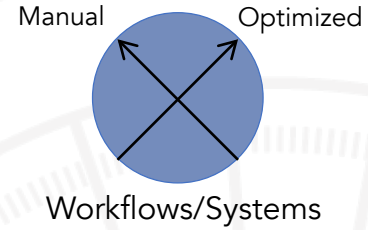
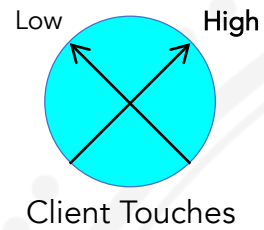
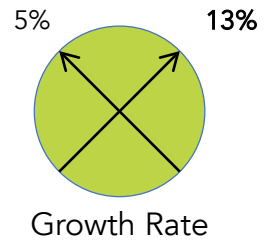
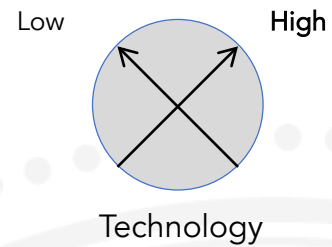
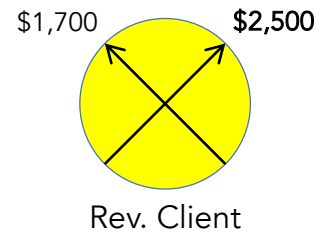
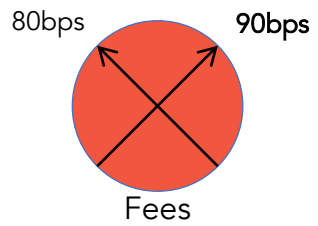


# Value Building Tip #5

- Institutionalized/Standardized Client Service Model
  - Consistency
  - Automation
  - Multiple touches
  - No one person as sole contact

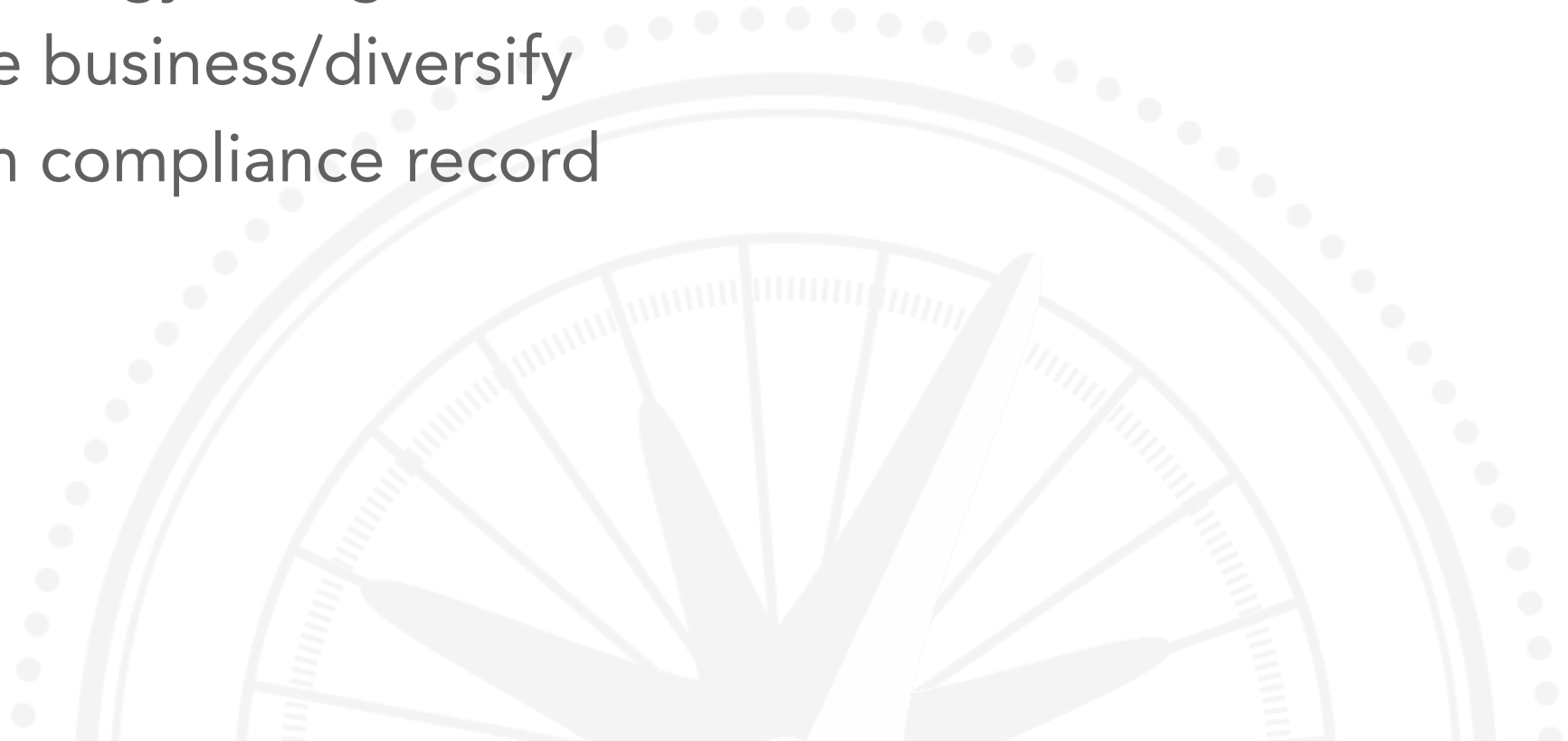


# Building Value

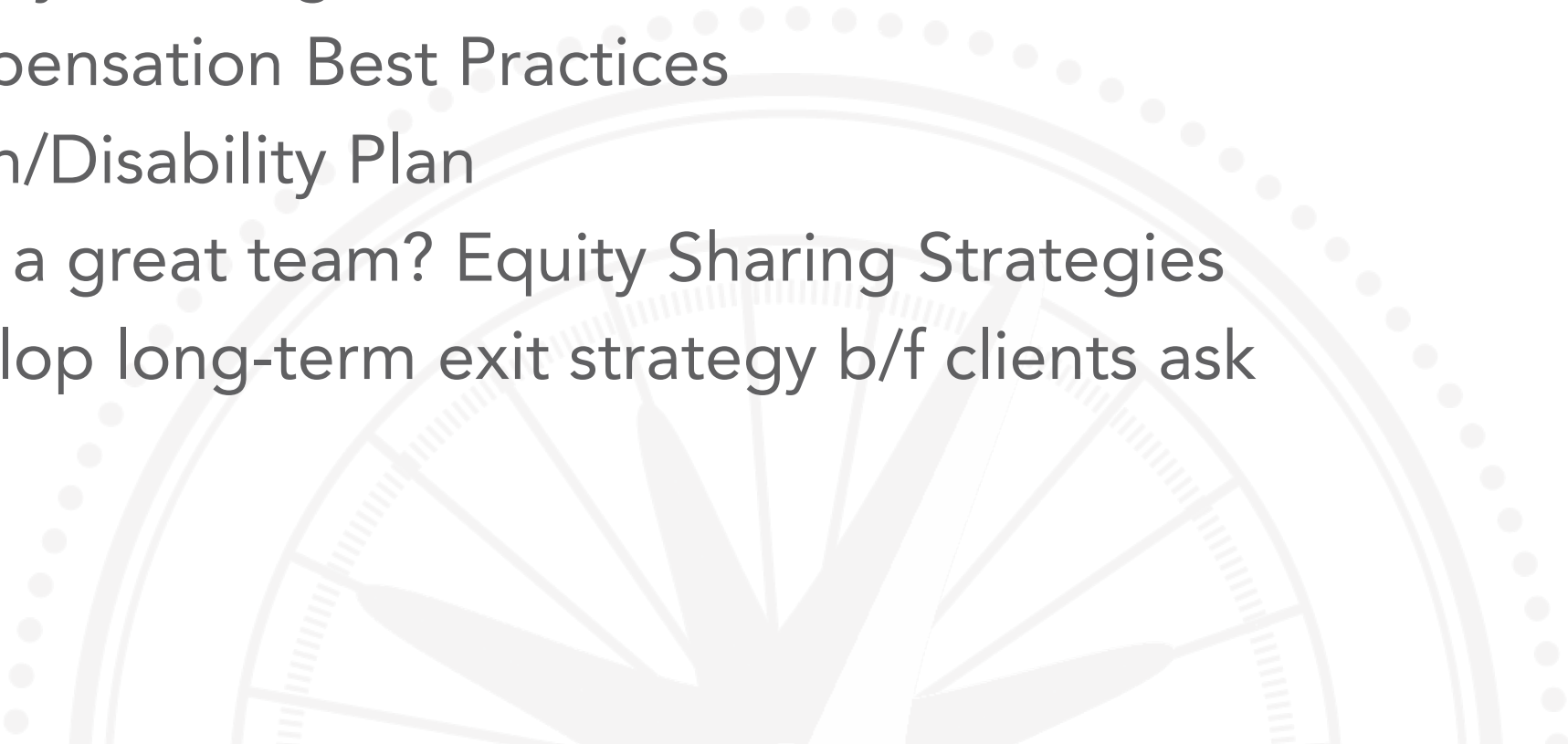


# Other Value Building Tips

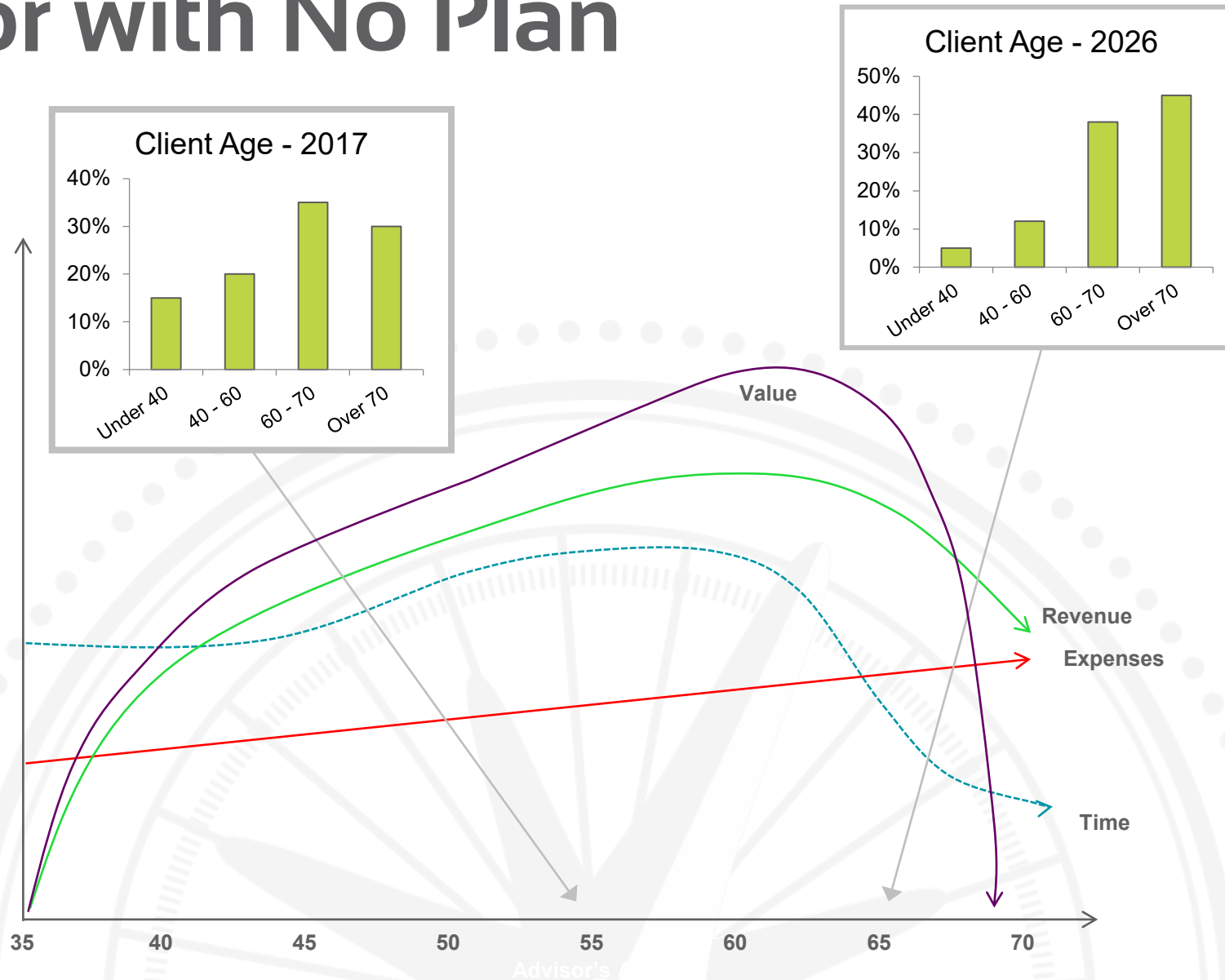
- Outsourcing/partnering
- Technology, using it
- Niche business/diversify
- Clean compliance record



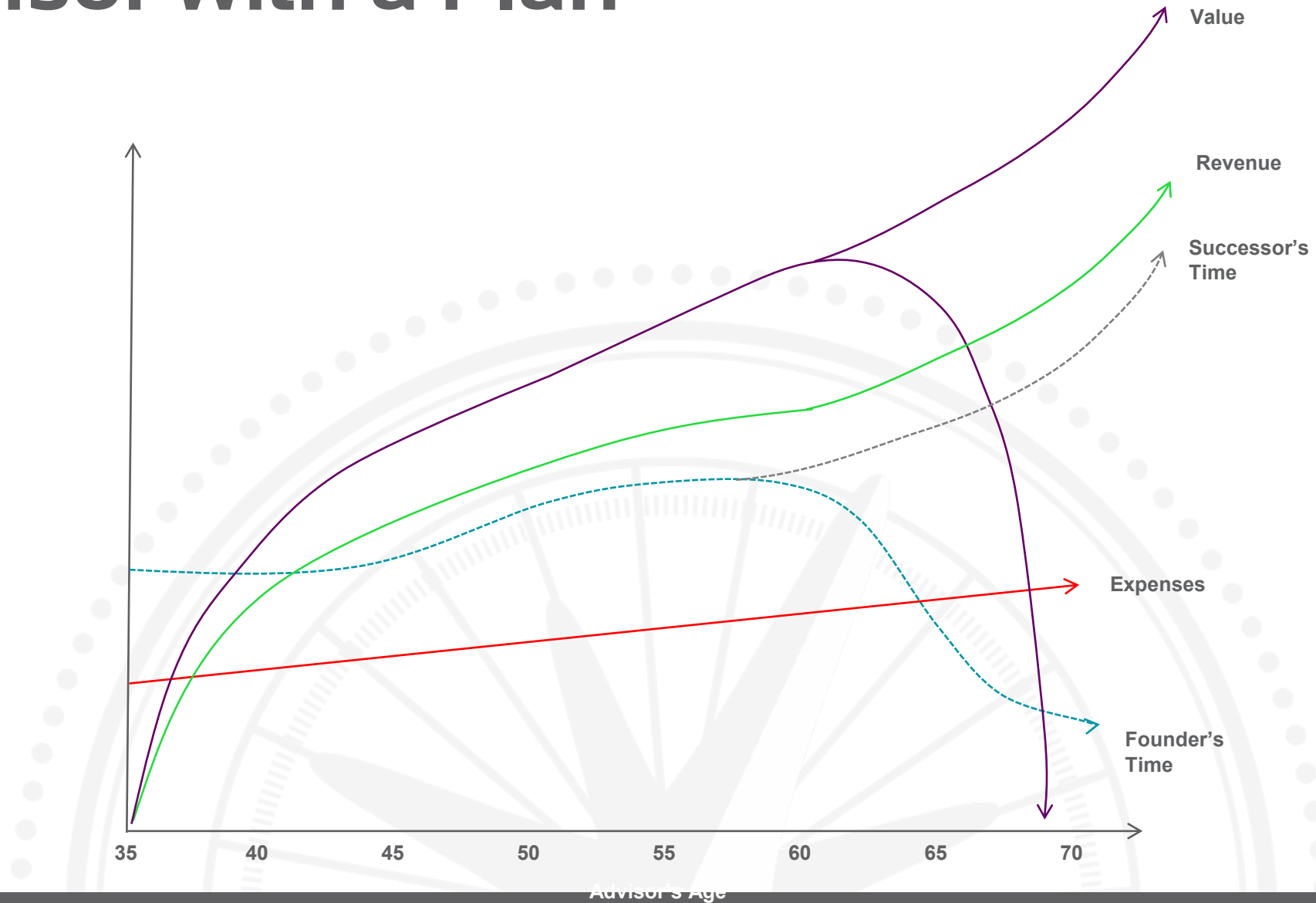
# Operational Improvements to Build Value

- Formalize Operational Structure
  - Employment Agreements
  - Compensation Best Practices
  - Death/Disability Plan
  - Have a great team? Equity Sharing Strategies
  - Develop long-term exit strategy b/f clients ask
- 

# Advisor with No Plan



# Advisor with a Plan





# Best Practices

- “What’s measured...improves”
- Value Practice Annually
  - Build greater value thru benchmarking
  - Better buyer – lending qualification
  - Equity sharing strategies





# SRG

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More questions? Contact us today!