

# 3xEquity

## Benchmark Report

ROGER JONES

MARCH 23, 2016

# Executive Summary

Per your request, we have completed the Benchmark Report for Roger Jones.

Based on the information provided, our analysis indicates that the current market value for your business is approximately \$1,686,750 as of March 23, 2016. In the report that follows we detail the basis for this valuation.

As always, if you have questions, please don't hesitate to contact us.



## About Us

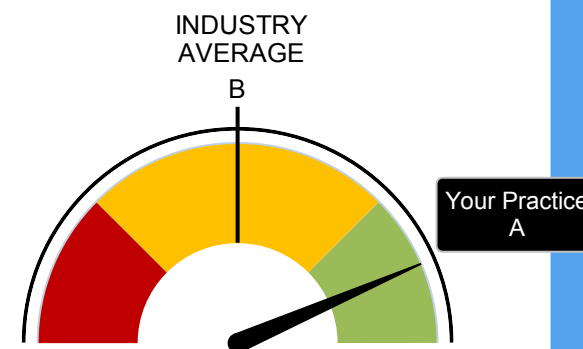
3xEquity, is a financial service valuation firm for the independent financial advisor looking to see how much his or her book of business is worth. Through its sleek, easy-to-use website, 3xEquity offers real-time data for financial advisors, which enables advisors to track and project the value of their practice. Based on this tracking and projections advisors will be able to assess the results of various growth strategies and then make crucial business decisions.

## Contact Us

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Valuation  
**\$1,686,750**

Overall Grade\*  
**A**



The overall performance and grade for your business are determined by averaging the scores from the 9 variables measured in this report.

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# 3xEquity and our Valuation Service

## About 3xEquity

At 3xEquity, we are a group of financial service professionals who have spent our entire careers growing one of the best firms in the country while earning many distinguished awards along the way.

3xEquity helps financial advisors:

- Determine practice value
- Maximize practice value
- Compare practice performance to industry

3xEquity can introduce sellers to buyers and buyers to sellers. We can help a junior advisor purchase a senior advisor's practice. We can even provide financing. If you want the process of selling, buying or financing to be SIMPLE, FINANCIALLY REWARDING, and conducted with the HIGHEST LEVEL OF INTEGRITY, then 3xEquity could be your answer.

## Valuing a Financial Services Business

Many factors determine the value of a business, but the key drivers are 1) recurring gross dealer concessions (GDC and/or ongoing revenue) and 2) assets under management (AUM). Sometimes overlooked, but equally important, are profitability and the age demographics of clients.

Age demographics and the generational planning of your clients (or lack thereof) are two key factors that roll up under the risk barometer of your practice. Although it is often misunderstood, the terms of the deal you structure are often more important than the actual price of your practice when it comes time to buy or sell.

## How does this affect the valuation of a firm?

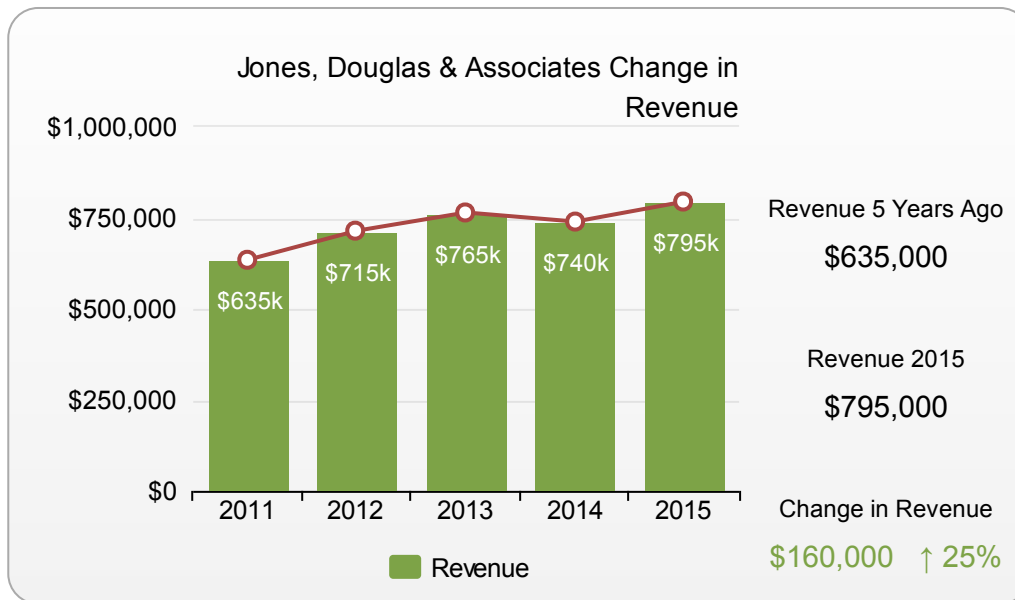
Recurring revenue (or fee-based) is earned through fee-based investments. Examples of fee-based investments include wrap accounts, C Shares, annuities, and financial planning fees. Fee-based accounts are charged as an asset fee or percentage on AUM. Transactional revenue (or non-recurring) is earned from a one-time transaction for a commission payment.

## 5-Year Revenue Trend

How do you feel about your trend line the past 5 years? To get the most equity for your practice, you need to understand your net flow of assets. Changes to your trend line include:

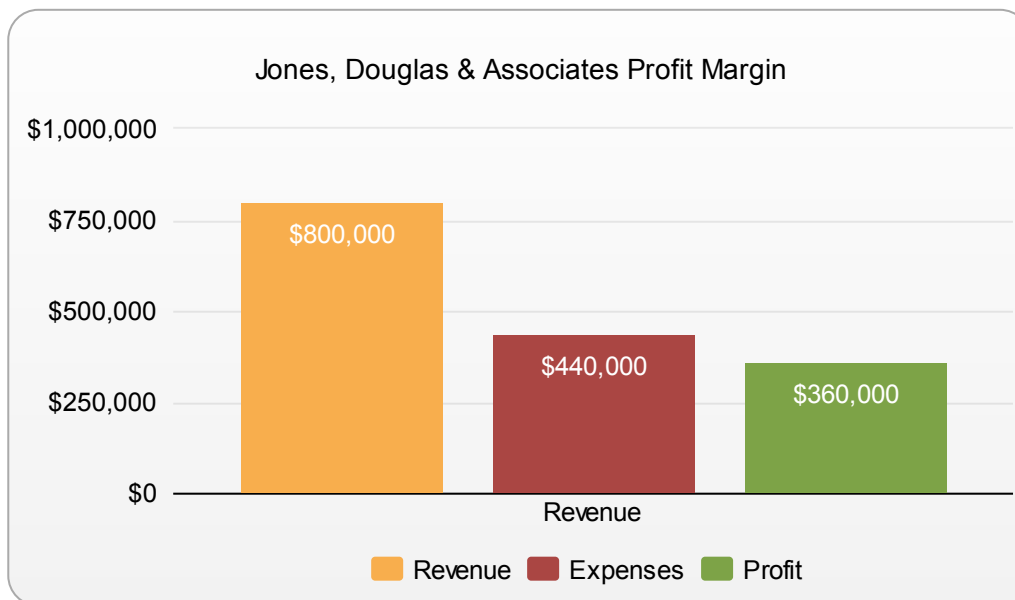
- market growth/decline
- new assets
- asset attrition
- acquiring another practice
- selling clients
- purchasing new clients
- changing your book to more recurring revenue

In order to get the most equity for your practice, you need to understand what your net flow of assets was over the past 5 years.



## Practice Profit Margin

Despite positive financial performance and a rebounding equity market over the past years, median AUM was essentially flat for the industry. Since 2003, overhead as a percent of revenue has remained virtually unchanged, hovering at just over 40% of revenue.<sup>1</sup>



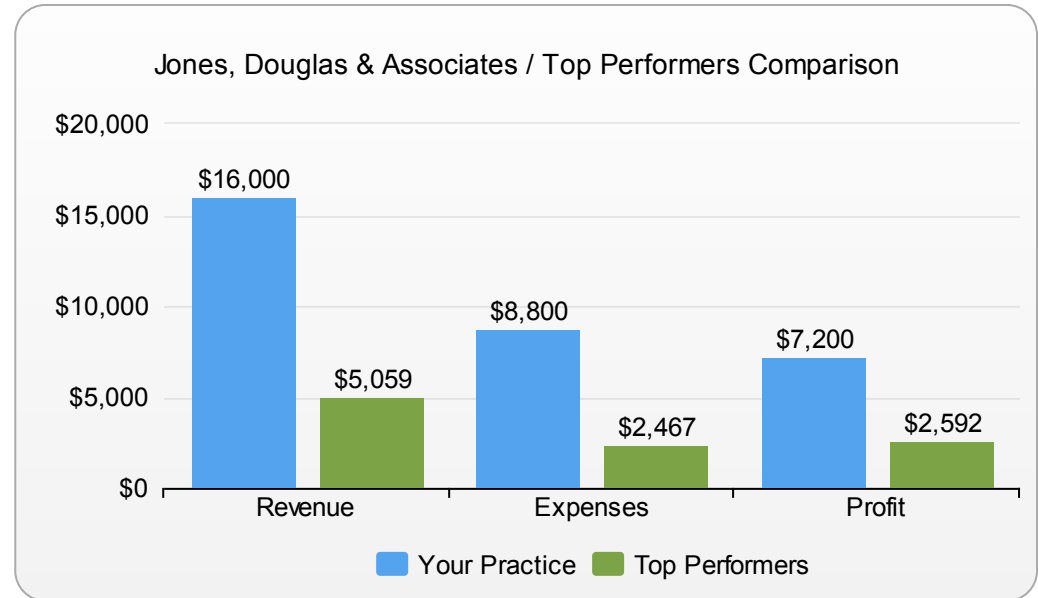
## Profit Margin per Client

We find top advisors can do more with less, which results in higher productivity and higher margins. (The exception to this rule is when you expand or hire staff before you need them, or when you rent office space before you need it.)

Overall, Top Performers continued their faster growth in clients – adding more new clients and more large clients. As a result, they continue to show higher revenue per client and are growing revenue per client faster than other firms.

The higher clients-per-professional ratio, combined with slightly larger clients, slightly less staff, and lower expenses translates into higher revenues with much better margins for Top Performers. In sheer dollars, owner income is significantly higher at top performing firms.

Top Performers are also more productive and more successful in controlling costs: they serve significantly more clients per adviser, and per total staff. Their overhead cost is significantly below the industry average, while overhead at other firms is slightly above average.

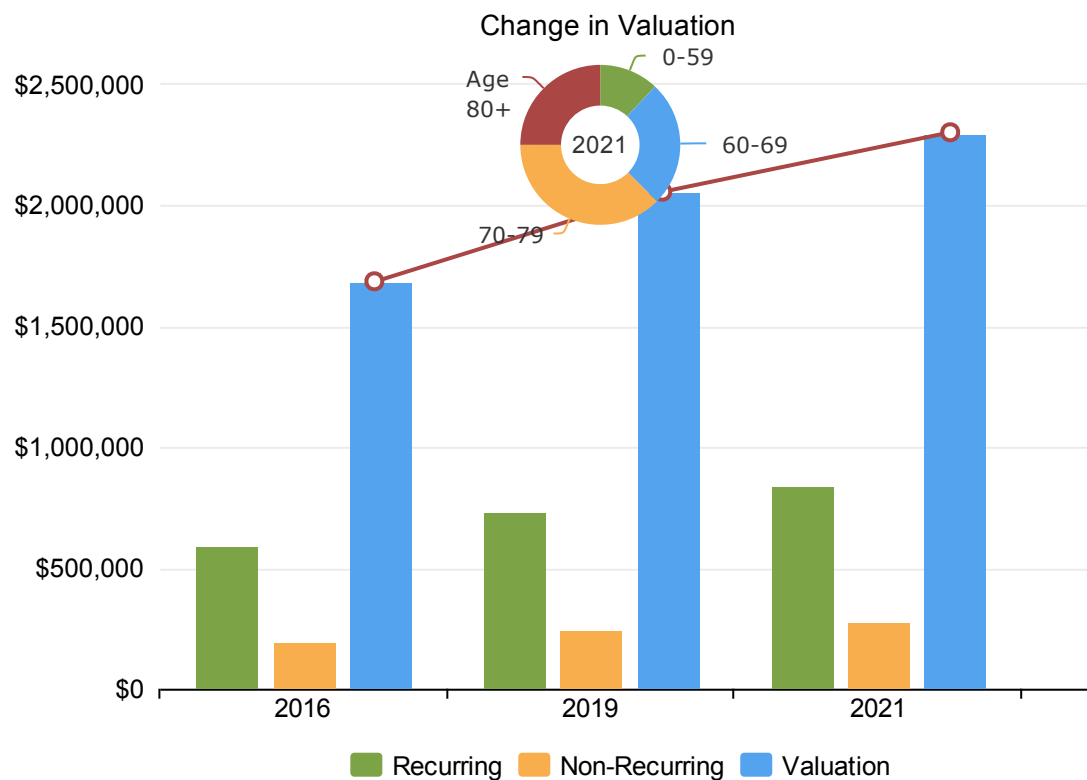


Profit margin per client = Operating profit divided by the number of active clients.

# Current, 3, and 5 Year Customized Valuation

Here we include the 7 critical variables you provided to determine your valuation. Notice the difference in your valuation today compared to 3 and 5 years down the road. The three variables that have the greatest impact on your practice valuation are 1) growth/decline of your assets, 2) age of your clients, and 3) percentage of recurring revenue.

**Helpful Hint:** The positive and continual flow of assets has the greatest immediate impact on your practice valuation.



See the data for this graph on the next page.

Valuation Today  
**\$1,686,750**

Valuation in 3 years  
**\$2,057,790**

Valuation in 5 years  
**\$2,303,679**

Change in Valuation  
**\$616,929 ↑ 37%**

## Current, 3, and 5 Year Customized Valuation (Continued)

### Customized Valuation Data

YEAR	RECURRING REVENUE	NON-RECURRING REVENUE	TOTAL REVENUE	AGE 0-59	AGE 60-69	AGE 70-79	AGE 80+	VALUATION
2016	\$600,000	\$200,000	\$800,000	15%	45%	30%	10%	\$1,686,750
2017	\$642,000	\$214,000	\$856,000	14%	42%	32%	12%	\$1,783,007
2018	\$686,940	\$228,980	\$915,920	14%	37%	33%	16%	\$1,884,880
2019	\$735,026	\$245,009	\$980,035	13%	34%	35%	18%	\$2,057,790
2020	\$786,478	\$262,160	\$1,048,638	13%	29%	36%	22%	\$2,177,139
2021	\$841,531	\$280,511	\$1,122,042	12%	26%	38%	24%	\$2,303,679



# Practice Comparison

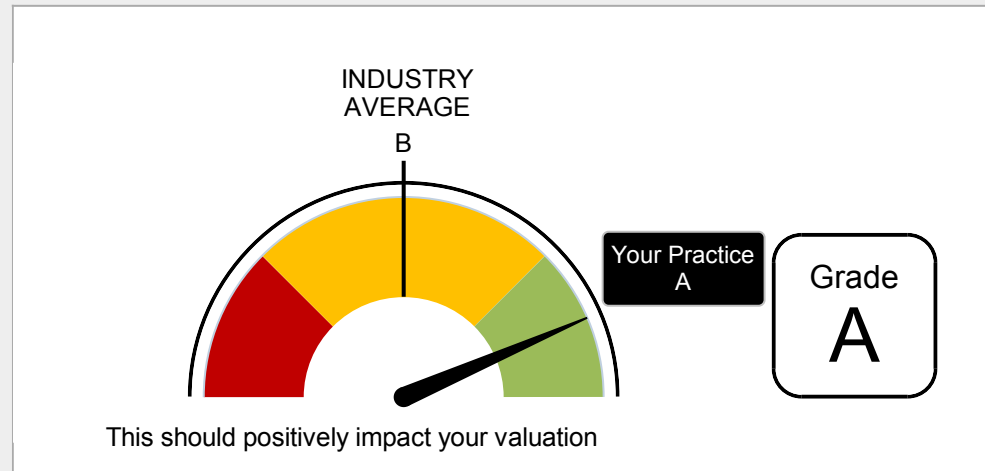
The Practice Report Card Performance section grades your practice based on the values you supplied on our Benchmark Report page.

- We used the study *2013 InvestmentNews/Moss Adams Financial Performance Study of Advisory Firms* to compare your firm to the top performing firms and the national average. The Top Performers comprise the top 25% of solo firms that responded to the study; the national average is all other solo firm respondents.
- Our grading system is similar to an academic report card with the grades A, B, and C.
- Your overall grade is a weighted averaged from all the individual grades in this section.
- Helpful Hints throughout the grading scales provide insight to industry standards and trends.

## Report Card Overall Grade

Your overall grade is averaged from all the individual grades that are shown on the following pages.

The 2013 industry average grade was a B.



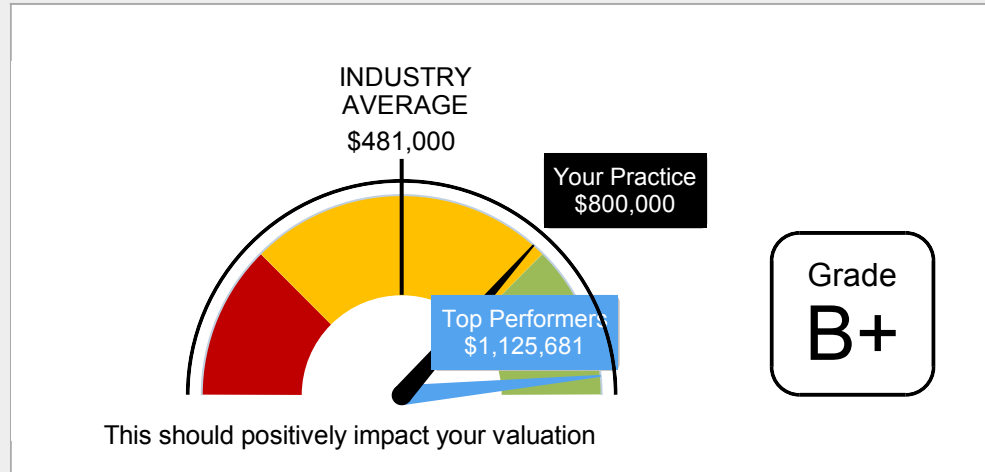
# Your Practice Comparison (Continued)

## Revenue per Practice

This grading scale indicates your 2014 revenue or gross dealer concessions (GDC) and compares it to the national average.

Revenue per Practice = Total income for the firm, less any applicable broker-dealer haircut. The 2013 national average for revenue per professional was \$481,100 and the Top Performers generated \$1,125,681.<sup>2</sup>

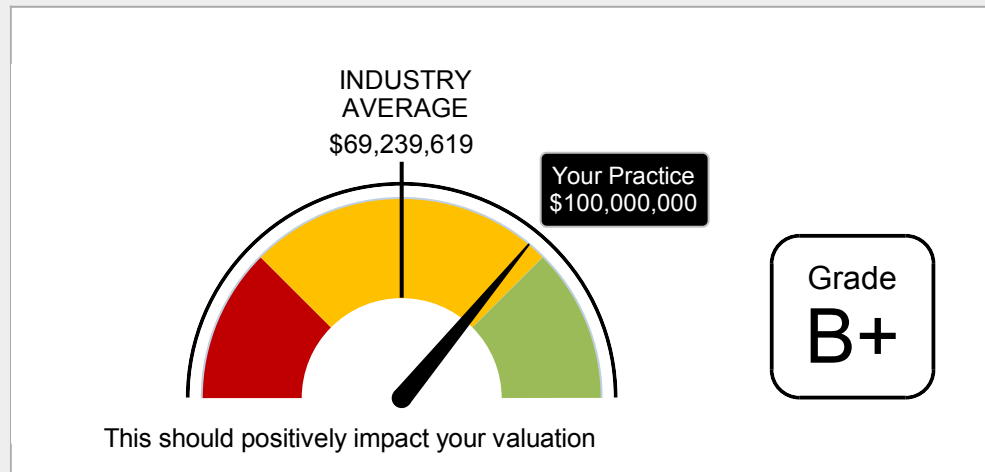
**Helpful Hint:** Average revenue in 2011 was \$480,000.



## Assets under Management per Practice

This grading scale indicates your 2014 assets under management (AUM) and compares it to the national average.

The 2013 average AUM per professional was \$69,239,619 and represents Broker Dealers only.<sup>3</sup>

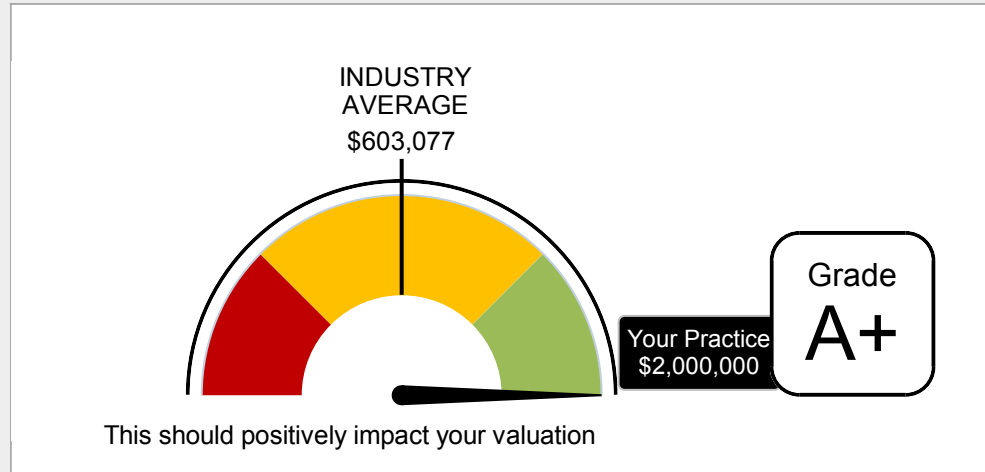


# Your Practice Comparison (Continued)

## Average AUM per Client

This grading scale indicates your 2014 AUM, divides it by your number of clients in 2014, and then compares it to the national average. The 2013 average AUM per client was \$603,077.<sup>4</sup>

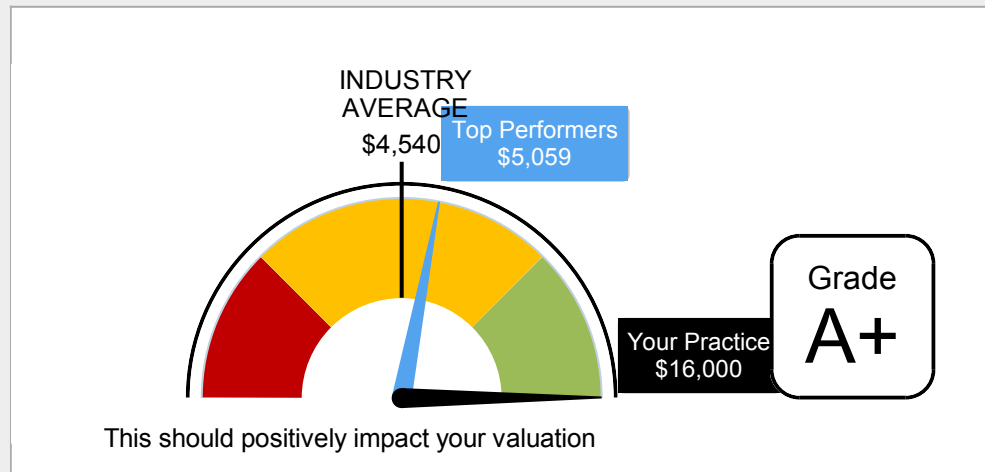
**Helpful Hint:** AUM per client in 2011 was \$600,840.



## Average Revenue per Client

This grading scale indicates your 2014 revenue, divides it by your number of clients in 2014, and then compares it to the national average (\$4,540) and the Top Performers (\$5,059).<sup>5</sup>

**Helpful Hint:** Top Solo Firms benefit from economics of scale gained from operations and from efficient utilization of human capital.<sup>6</sup>

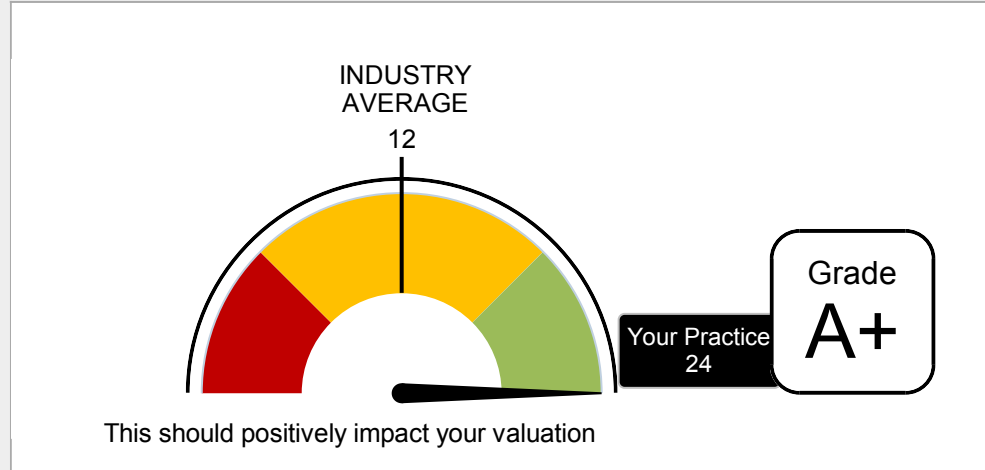


# Your Practice Comparison (Continued)

## New Clients Growth

New client growth for 2013 averaged 12 new clients per Solo firm.<sup>7</sup>

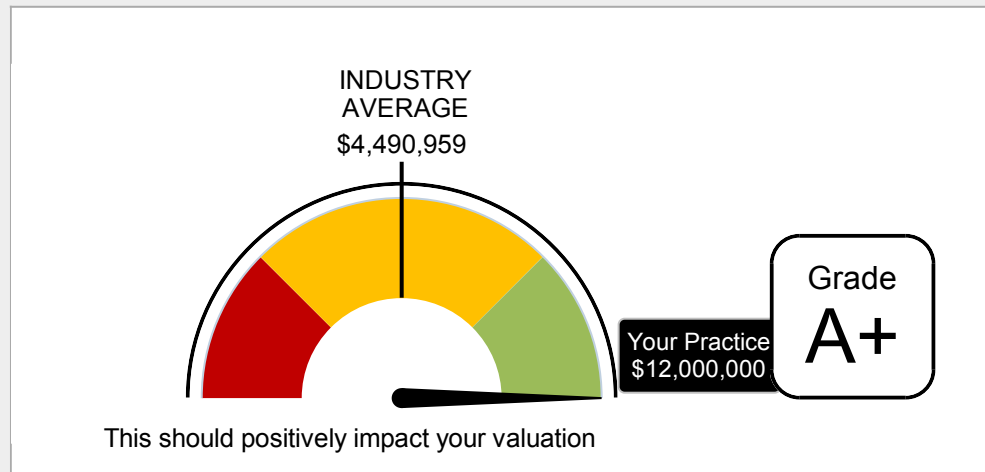
**Helpful Hint:** New Client growth has not been improving over the last 6 years. Referrals continue to be the primary source of organic growth. However; we are seeing significantly more acquisitions in recent years which will lead to more clients per practice.



## New AUM from New Clients

This grading scale indicates the total amount of new assets from new clients in 2014 and then compares it to the national average.

In 2013 the national average for new assets from new clients was \$4,490,959 for solo firms.



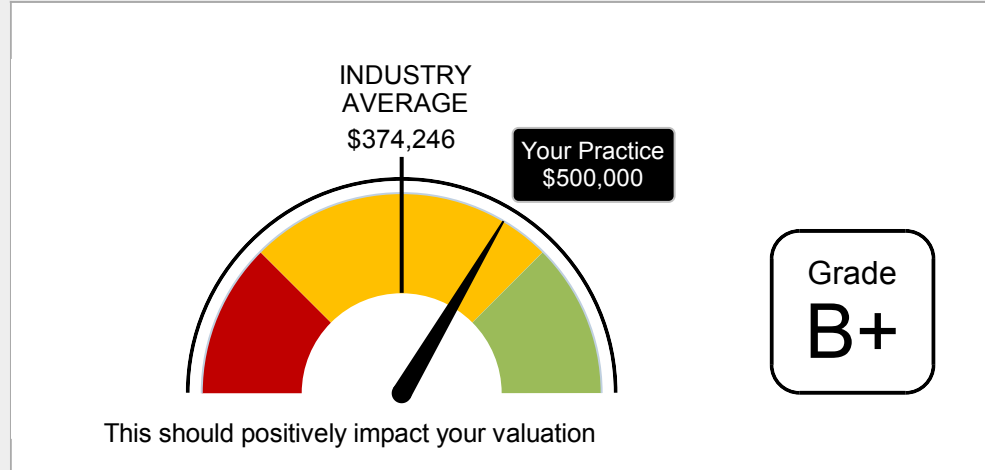
# Your Practice Comparison (Continued)

## Average AUM per New Client

This grading scale indicates your 2014 New Assets from New Clients, divides it by the number of new clients in 2014, and then compares it to the national average.

In 2013 the average AUM per new client was \$374,246. This is found by dividing the \$4,490,959 million in average Total AUM by the average of 12 new clients per practice.

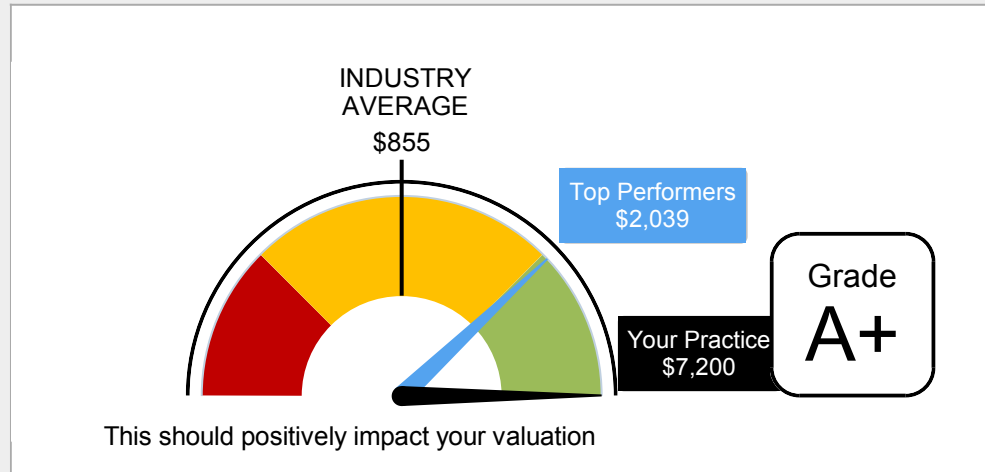
**Helpful Hint:** With faster growth in number of clients and higher revenue per client, overall revenue grew much faster for higher performers than average performers. They tend to have more efficiency and profitability per client.



## Operating Profit per Client

This grading scale calculates a practice profit earnings in 2014 and then compares it to the Top Performers and the national average.

Average revenue for Top Performers was \$5,059, as compared to \$4,540 for the national average. Expenses were \$2,467 and \$3,373, respectively. Operating profit per active client was \$2,039 for Top Performers and \$855 for the national average.<sup>8</sup>



# Your Practice Comparison (Continued)

## Profit per Practice

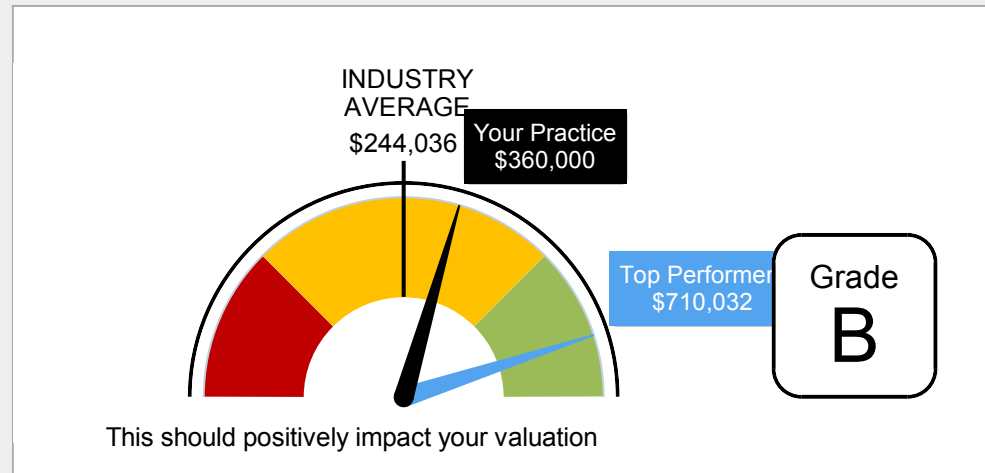
This grading scale calculates the 2014 earnings before owners compensation margin (EBOC), also known as practice profit earnings, and then compares it to the national average.

EBOC = Operating income plus owner's professional salary and owner's management salary and bonuses.

EBOC for top Solo firms was on average \$710,032, or 63.1% of revenue, compared to \$244,036 or 50.7% for all other Solo firms.<sup>9</sup>

Top Performers cost control and ability to be selective with the clients they manage allow the opportunity to have high margins and profit per client.<sup>10</sup>

**Helpful Hint:** EBOC is a good measure, not only of how well the firm is able to generate profit, but also of the total dollar amount that an owner takes home regardless of the quantity of salary that the owner received during the year. For example, if some owners decide to pay themselves a lower salary than the market rate for their services, then perhaps their EBOC will be higher to offset the low compensation.<sup>11</sup>



# Report Inputs

We include here key data points that we think are most important for your benchmark report.

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## Practice Metrics

NAME	VALUE	DEFINITION
Revenue	\$800,000	Gross income over the Last Twelve Months (LTM).
Recurring Revenue	75%	Recurring revenue is generally referred to as fee-based income or recurring income, not transactional income.
Active Clients	50	How many clients or households do you have?
Net Asset Flow	1%	Are your net asset flows on average positive or negative? What is your percentage per year?
Average Rate of Return	6%	After you charge your asset fee, what annualized rate of return do you predict to earn for the next 5 years for your client assets?
Client Age Distribution	0 59: 15% 60 69: 45% 70 79: 30% 80+: 10%	Based on national averages for client age, we have assumed the national average of age grouping for your clients.

## Peer Comparison

NAME	VALUE	DEFINITION
Assets under Management	\$100,000,000	Assets under management, or AUM, is the total amount of assets your practice is managing.
Assets Acquired in 2014	\$12,000,000	The number of new assets acquired in your practice in 2014.
Expenses	\$440,000	Total number of fixed overhead costs on an annual basis.
New Clients in 2014	24	The number of new households acquired in 2014.
Years in Service	15	The number of years you have been advising your client base.
Years until Retirement	2	How many years until you would like to retire?

# Report Inputs (Continued)

## Practice Trends

NAME	VALUE	DEFINITION
Revenue in 2010	\$635,000	What was your revenue in 2010? This will give you "rearview mirror" perspective to help your forward planning.
Revenue in 2011	\$715,000	What was your revenue in 2011?
Revenue in 2012	\$765,000	What was your revenue in 2012?
Revenue in 2013	\$740,000	What was your revenue in 2013?
Revenue in 2014	\$795,000	What was your revenue in 2014?

## Tax Treatment / Strategy

NAME	VALUE	DEFINITION
Capital Gains (Scenario 1)	70%	What percentage of the sales price would you like to be treated as capital gains? (Industry standard is approximately 75%.) Most sellers want more towards capital gains, and most buyers want less.
Capital Gains (Scenario 2)	90%	What percentage of the sales price would you like to be treated as capital gains? (Industry standard is approximately 75%.) Most sellers want more towards capital gains, and most buyers want less.
Other Income for Taxes	\$0	Income earned through wages, bonuses, investment income, and any other ordinary income.
Filing Status	Married Filing Jointly	Do you file your taxes jointly (Married Filing Jointly) or as an individual/separately (Single)?



# References

All peer comparison uses data from the *2014 InvestmentNews/Moss Adams Financial Performance Study of Advisory Firms*. This bi-annual study is conducted by IN Adviser Solutions ([www.inadvisersolutions.com](http://www.inadvisersolutions.com)), InvestmentNews ([www.investmentnews.com](http://www.investmentnews.com)), and Moss Adams, LLP ([www.mossadams.com](http://www.mossadams.com)).

The 310 respondents were split into 4 groups; Solo, Ensemble, Enterprise Ensemble, and Super Ensemble. For our report, the Solo firm data was used, as it is the comparison of an independent financial advisors' data, not a group of advisors data. In the report we use "Top Performers" to represent the top 25% of all Solo firms in the study. We use "national average" to represent all other Solo firms in the study. Some data used for comparison, in the 3xEquity Benchmark report, uses calculations based on data from all 310 respondents and normalized for the Solo firm averages.

## Notes:

Siracuse, Suzanne and Bruno, Mark and Sirinides, Matt. *2014 InvestmentNews/Moss Adams Financial Performance Study of Advisory Firms*. New York: Crain Communications Inc.

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|-----------------------|-------------|
| 1. Page 25, Figure S6 | 7. Page 53  |
| 2. Page 24            | 8. Page 28  |
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| 6. Page 28            |             |

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