



Financial Advisory Practice Calculation

Prepared Exclusively For:

Sample Advisor

Friday, June 21, 2019

Our Practice Valuation and Consulting Services provide you with accurate and meaningful information to guide you in succession planning, practice acquisitions, profitability and equity management.

Our Approach	Unique Methodology	Individualized Service
<p>We provide a unique combination of real life experience, traditional M&A principals, and industry specific market knowledge. In addition, our analysis is provided within the context of a consulting relationship.</p>	<p>We deliver a calculation of value that integrates the industry specific “market” based approach with the more established M&A practice of using a “discounted earnings” method. The integration of the two methods balances the views of buyer and seller.</p>	<p>Consulting is part of every calculation report that we deliver - we go deeper than the numbers in the analysis. Our process includes a focus on the “non-price” factors that can greatly influence the success of a deal.</p>



Benefits		
<p>Information and advice you can trust to make “milestone changing” decisions</p>	<p>Value accuracy resulting from our integrated dual approach methodology</p>	<p>A better understanding of all the factors that make your deal successful</p>

It is important that you have a general understanding of our Calculation of Value methodology to get the maximum benefit from this analysis. A detailed review will take place during our phone consultation.

Calculation of Valuation Methodology

Our Value Calculation methodology is unique in that it utilizes the commonly used financial services industry standard “market approach” with a more established mergers and acquisition “income approach” (discounted earnings). By establishing a value based upon the average of the two methods, you can be assured that it represents the fair market value.

Market Approach Method

Our Market-Based Calculation methodology looks at the key performance metrics of the practice (i.e. recurring revenue, profitability, client age, client segmentation) and compares them to our benchmarks. By doing so, we determine where your practice is above or below average and the overall quality. We then compare your practice to the sales of similar quality practices and arrive at a market value. This result is expressed in multiples of revenue, as it is a common point of reference.

Income Approach Method

Our discounted earnings methodology uses a discount or “hurdle” rate by combining a Risk Free Return Rate of Return (Long-Term U.S. Treasury Bills), Equity Risk Premia, Size Premia, Industry Risk and Revenue Volatility Factor. By using a net revenue (after operating expenses) benchmark, our analysis provides you with a solid earnings based Calculation of Value (Net Present Value).

Calculation Summary

Based on the currently available data, it is my opinion that the Fair Market Value of a 100% fully marketable controlling interest this practice is as of May 31, 2019:

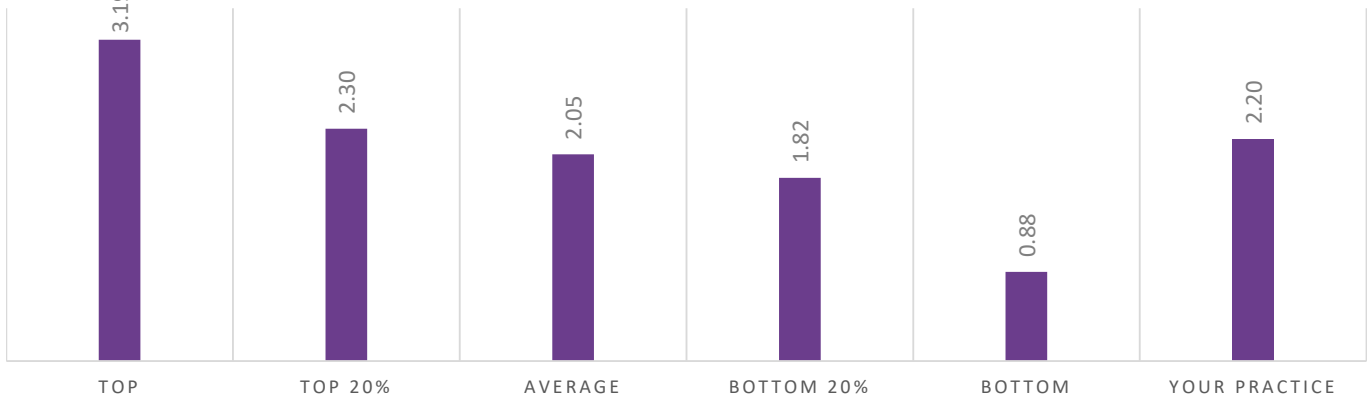
\$1,255,189



Todd Doherty
Mergers and Acquisitions Specialist
Advisor Legacy

Multiple of Revenue (GDC) Comparisons

Based upon more than 200 valuations completed in the past year



Opportunities for Improvement:

To Match Top 20 Percentile: \$57,600

*Our Fair Market Value Calculation based on Market & Earnings Analysis

Calculation Dashboard

Date **6/21/2019**
 Advisor **Sample Advisor**

Assets Under Management

This page provides a quick reference to the results of our calculation.

\$88,555,444

Total T-12 Revenue (GDC)

\$570,000

Payout %

85%

Post Payout Revenue/GDC

\$484,500

Transaction Based Revenue %

15%

Recurring Revenue %

85%

Asset Velocity

0.64

Transaction Based Revenue

\$72,675

Recurring Revenue

\$411,825

Value Impact of Asset Velocity

Positive

Fair Market Value

Value Based On:

Market & Earnings Analysis

Reference Value



Average Value

\$1,255,189

Transaction Revenue Multiple

1.12

Recurring Revenue Multiple

2.87

Market Based Value

\$1,261,275

Growth Rate

7.28%

Discount Rate

17.00%

Earnings Based Value

\$1,249,104

Range of Price

15% Below Result

\$1,066,911

Your Valuation

\$1,255,189

15% Above Result

\$1,443,468



The valuation result (value) is generally in the middle of a range of prices that we would expect to see in actual deals. A range of price exists due to the terms of the deal, financing structure, assumptions of the buyer and seller, and other factors.

Note: This valuation is an estimation of the current market value of your practice. The actual sale price may vary.

Earnings Analysis

Date
Practice

6/21/2019
Sample Advisor

OPTIONS	#1	#2
Starting Net Revenue (GDC)	\$484,500	\$484,500
Growth Rate	7.28%	7.28%
Starting Expenses %	38.24%	38.24%
Starting Expenses	\$185,273	\$185,273
Expense Growth Rate	4.00%	4.00%
Sale Price	\$1,255,189	\$1,255,189
Down Payment %	20.00%	85.00%
Down Payment \$	\$251,038	\$1,066,911
Balance Due	\$1,004,151	\$188,278
Interest Rate	5.00%	4.00%
Payments per year	12	12
Down Payment Financed	Yes	Yes
Down Payment Note	\$251,038	\$1,066,911
Term Years	1	10
Interest Rate	2.00%	6.50%
Payments per year	12	12
Hurdle Rate	17.00%	*Ibbotson Build Up

How to Use this Chart

This page illustrates the terms and assumptions used in our calculation model from a Buyer's point of view.

Option #1

Illustrates typical seller financing

Option #2

Illustrates typical bank financing

The Hurdle Rate is derived from the Discount Rate assigned in our value calculation; this rate is the "hurdle" for a buyer's return on investment.

Year	OPTION #1		5 Years		Debt Service	
	Revenue	Growth	Expenses	Growth	Down Payment	Acquisition
0	\$484,500		\$185,273			
1	\$519,756	7.28%	\$192,684	4.00%	\$253,766	0
2	\$557,578	7.28%	\$200,391	4.00%	0	\$227,395
3	\$598,152	7.28%	\$208,407	4.00%	0	\$227,395
4	\$641,679	7.28%	\$216,743	4.00%	0	\$227,395
5	\$688,373	7.28%	\$225,413	4.00%	0	\$227,395
6	\$738,464	7.28%	\$234,429	4.00%	0	\$227,395
7	\$792,201	7.28%	\$243,806	4.00%	0	0
8	\$849,848	7.28%	\$253,559	4.00%	0	0
9	\$911,690	7.28%	\$263,701	4.00%	0	0
10	\$978,033	7.28%	\$274,249	4.00%	0	0
TOTALS:					\$253,766	\$1,136,975

Owner Retained Earnings		Investment Metrics	
Net to Buyer	%	Hurdle Rate	Weighted ROI
\$73,307	14.10%	17.00%	-2.90%
\$129,792	23.28%	17.00%	6.28%
\$162,351	27.14%	17.00%	10.14%
\$197,541	30.79%	17.00%	13.79%
\$235,565	34.22%	17.00%	17.22%
\$276,640	37.46%	17.00%	20.46%
\$548,395	69.22%	17.00%	52.22%
\$596,290	70.16%	17.00%	53.16%
\$647,990	71.08%	17.00%	54.08%
\$703,784	71.96%	17.00%	54.96%
\$3,571,653			

Year	OPTION #2		5 Years		Debt Service	
	Revenue	Growth	Expenses	Growth	Down Payment	Acquisition
0	\$484,500		\$185,273			
1	\$519,756	7.28%	\$192,684	4.00%	\$145,375	0
2	\$557,578	7.28%	\$200,391	4.00%	\$145,375	\$41,609
3	\$598,152	7.28%	\$208,407	4.00%	\$145,375	\$41,609
4	\$641,679	7.28%	\$216,743	4.00%	\$145,375	\$41,609
5	\$688,373	7.28%	\$225,413	4.00%	\$145,375	\$41,609
6	\$738,464	7.28%	\$234,429	4.00%	\$145,375	\$41,609
7	\$792,201	7.28%	\$243,806	4.00%	\$145,375	0
8	\$849,848	7.28%	\$253,559	4.00%	\$145,375	0
9	\$911,690	7.28%	\$263,701	4.00%	\$145,375	0
10	\$978,033	7.28%	\$274,249	4.00%	\$145,375	0
TOTALS:					\$1,453,747	\$208,046

Owner Retained Earnings		Investment Metrics	
Net to Buyer	%	Hurdle Rate	Weighted ROI
\$181,698	34.96%	17.00%	17.96%
\$170,203	30.53%	17.00%	13.53%
\$202,762	33.90%	17.00%	16.90%
\$237,952	37.08%	17.00%	20.08%
\$275,976	40.09%	17.00%	23.09%
\$317,051	42.93%	17.00%	25.93%
\$403,020	50.87%	17.00%	33.87%
\$450,915	53.06%	17.00%	36.06%
\$502,615	55.13%	17.00%	38.13%
\$558,409	57.10%	17.00%	40.10%
\$3,300,601			

Benchmark Analysis

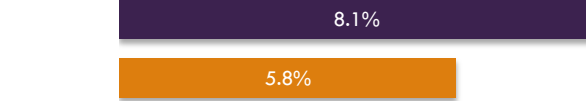
GDC (Gross Revenue Growth)

Benchmark	Your Practice
8.1%	5.8%

Lagging



GDC (Gross Revenue Growth)



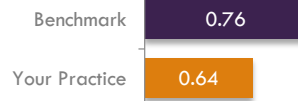
Asset Velocity

Benchmark	Your Practice
0.76	0.64

Surpassing



Asset Velocity



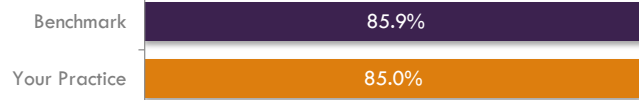
Recurring Revenue

Benchmark	Your Practice
85.9%	85.0%

On Par



Recurring Revenue



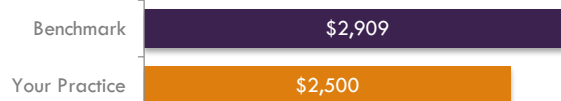
Average Client GDC (Gross Revenue)

Benchmark	Your Practice
\$2,909	\$2,500

Lagging



Average Client GDC (Gross Revenue)



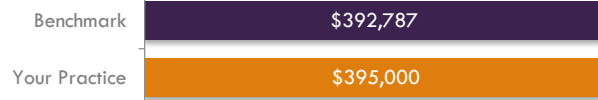
Average Client AUM

Benchmark	Your Practice
\$392,787	\$395,000

On Par



Average Client AUM



Average Client Age

Benchmark	Your Practice
61	60

On Par



Average Client Age



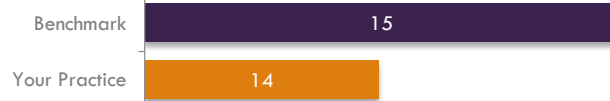
Average Length of Client Relationship

Benchmark	Your Practice
15	14

On Par



Average Length of Client Relationship



On Par = within +/- 10% of the Benchmark

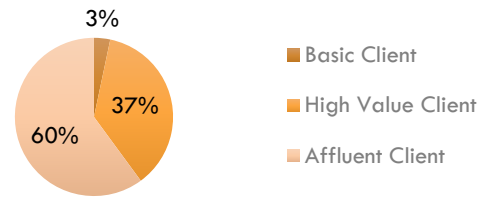
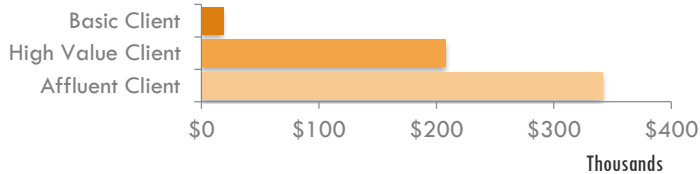
Segmentation Report

	Basic Client	High Value Client	Affluent Client
Assets Under Management	\$0 - 99K	\$100 - \$499K	\$500K+
Percent of Client Base	25%	52%	23%

T-12 Revenue (GDC)

Total	\$18,810	\$208,260	\$341,700
% of Practice	3.31%	36.62%	60.08%

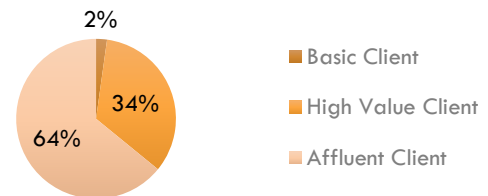
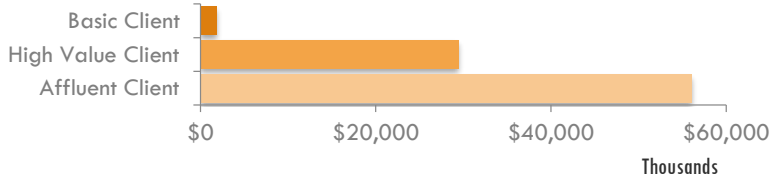
T-12 Revenue (GDC)



Assets Under Management

Total	\$1,932,300	\$29,484,000	\$56,100,000
% of Practice	2.21%	33.69%	64.10%

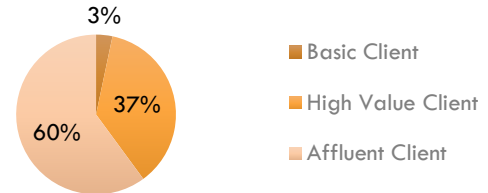
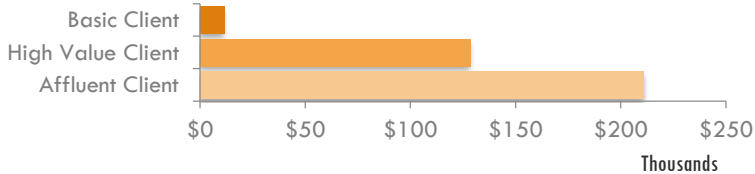
Assets Under Management



Operating Profit for Group (before owner's compensation and taxes)

Total	\$11,617	\$128,621	\$211,034
% of Practice	3.31%	36.62%	60.08%

Operating Profit for Group



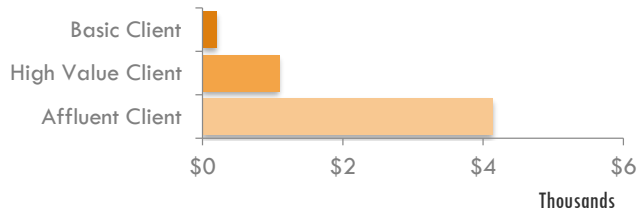
Average Operating Profit (before Owners Comp)

Total	\$204	\$1,099	\$4,138
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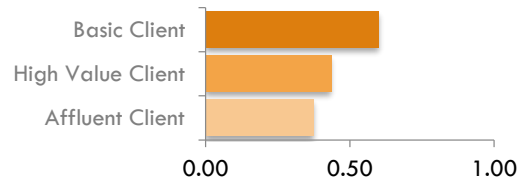
Average Return on Assets (Profit Weighted)

Total	0.60	0.44	0.38
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Average Operating Profit



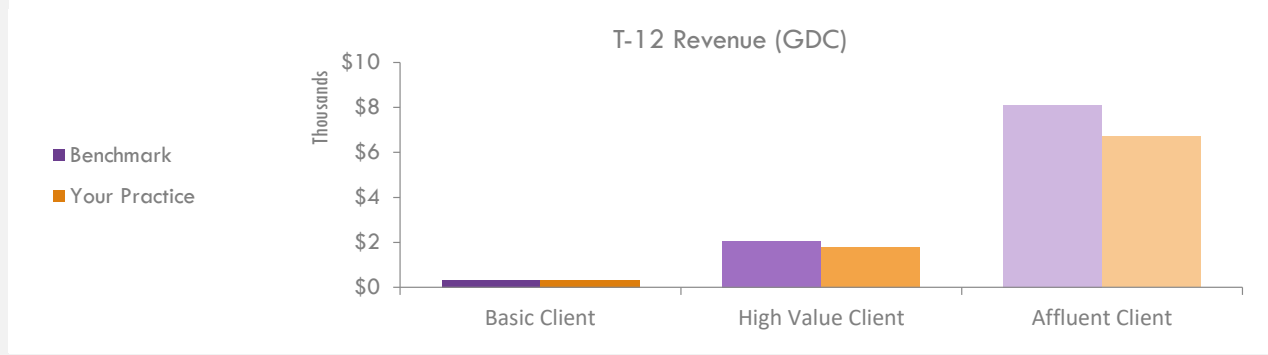
Average Return on Assets



Segmentation Vs. Benchmark Report

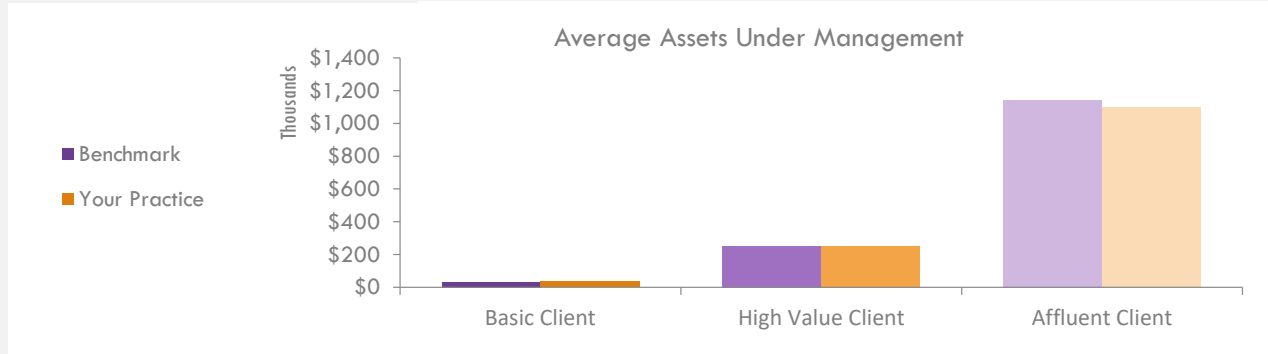
Assets Under Management	Basic Client	High Value Client	Affluent Client
	\$0 - 99K	\$100 - \$499K	\$500K+

T-12 Revenue (GDC)			
Benchmark	\$330	\$2,049	\$8,120
Your Practice	\$330	\$1,780	\$6,700



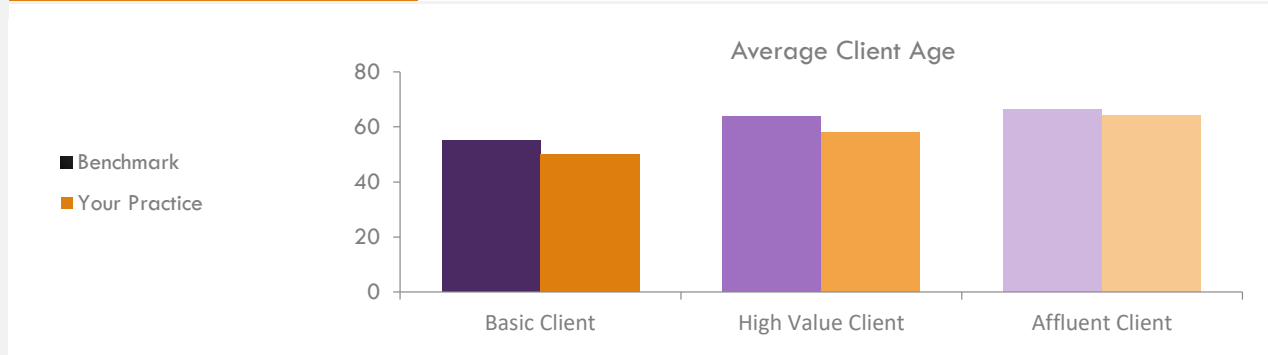
T-12 Revenue (GDC) Lagging ●

Average AUM (Assets under Management)			
Benchmark	\$33,035	\$252,762	\$1,144,593
Your Practice	\$33,900	\$252,000	\$1,100,000



Average AUM (Assets under Management) On Par ●

Average Client Age			
Benchmark	55	64	66
Your Practice	50	58	64



Average Client Age Surpassing ●

Client Segmentation (Total Number of Clients)

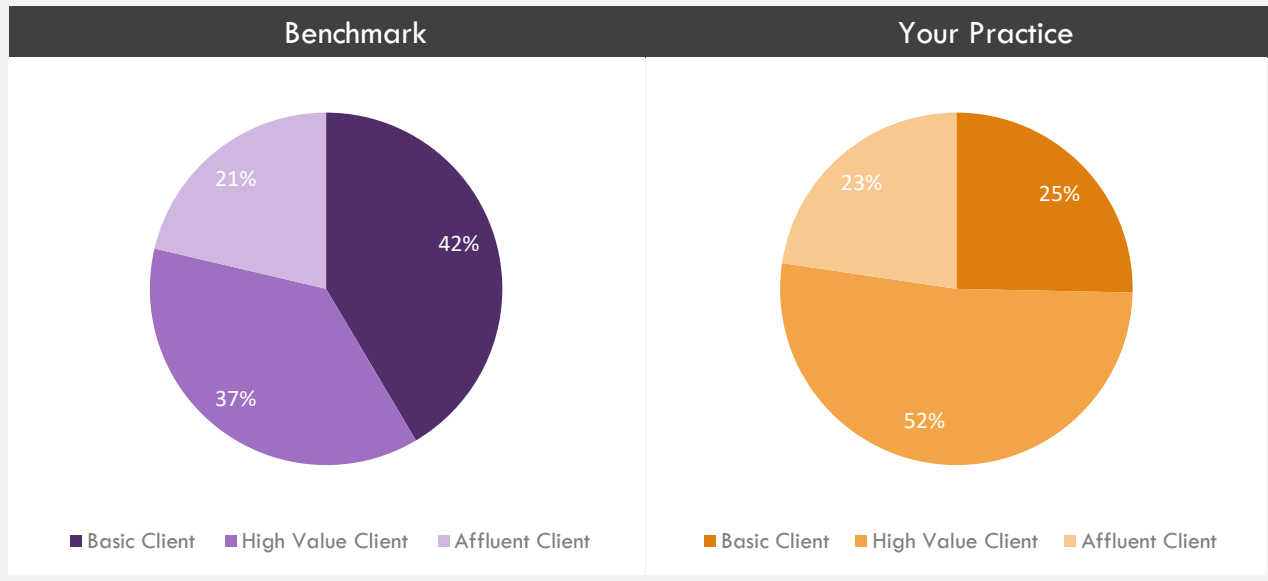
Segmentation Vs. Benchmark Report

	Basic Client	High Value Client	Affluent Client
Assets Under Management	\$0 - 99K	\$100 - \$499K	\$500K+
Benchmark	104	93	54
% Of Total Clients	40.76%	36.55%	20.96%
Your Practice	57	117	51
% Of Total Clients	25.33%	52.00%	22.67%



Client Segmentation (Total Number of Clients)

Surpassing



Client Segmentation (As Percentage)

Surpassing



Practice Efficiency

Financial Efficiency						
\$250-\$499K	Benchmark		Your Practice		Comparison	
BrokerDealer / Other	Other				Revenue	
Size	\$250-\$499K		\$250-\$499K		Variance	
Revenue	\$371,889		\$484,500		\$112,611	
Total Operating Expenses (Not Including Owner's Comp)	\$141,366	38.24%	\$185,273	38.24%	\$43,907	0.00%
Total Overhead Expenses (Including Owner's Comp Benchmark)	\$256,351	69.22%	\$335,371	69.22%	\$79,020	0.00%
Operating Profit	\$114,050	30.78%	\$149,129	30.78%	\$35,079	0.00%

*Owner's compensation is added back in according to the benchmark for a practice of this size

Practice Structure Efficiency			
	Benchmark	Your Practice	Comparison
Active Clients/Professional & Staff	85	75	-10
Active Clients/Professional	169	225	56
AUM/Professional & Staff	\$26,018,708	\$29,518,481	\$3,499,773
AUM/Professional	\$51,541,274	\$88,555,444	\$37,014,170
Revenue/Professional & Staff	\$166,828	\$161,500	-\$5,328
Revenue/Professional	\$337,725	\$484,500	\$146,775

Client Group Efficiency			
	Benchmark	Your Practice	Comparison
AUM/Active Client	\$327,967	\$393,580	\$65,613
Revenue/Active Client	\$2,145	\$2,153	\$8
Direct Expense/Active Client	\$756	\$1,023	\$267
Overhead (Compensation)/Active Client	\$236	\$0	-\$236
Overhead (Non-Compensation)/Active Client	\$451	\$467	\$15
Direct & Overhead Expense/Active Client	\$1,478	\$1,490	\$12
Operating Profit/Active Client	\$658	\$664	\$5

Range of Values for Financial Planning Practices

Average Practice

(Based Upon Last 483 Valuations)



AUM
\$103,704,699
Percentage of AUM: 1.57%

Average Valuation
\$1,627,351



Revenue
\$788,602
Revenue Multiplier: x 2.06
Gross Before Payout

Revenue Multiple
x 2.30

Top 20%
\$1,816,260

Using "rule of thumb" multipliers proves to be very inaccurate. Conducting a valuation each year will help you determine the true value of your practice. Small assumptions mean big differences!

24%
Range of Values
\$383,821

Revenue Multiple
x 1.82

Bottom 20%
\$1,432,439

Quick Tips

Seller

- Planning early for your succession will enhance your options for success (5+ years for internal succession)
- Be clear and transparent about your practice succession vision
- The specific terms of the deal are more important than the sale price
- Focus on the best buyer for your business over the highest offer
- Most Sellers only sell one business in their lifetime – enlist the help of professionals

Buyer

- Your ability to transfer and service the acquired clients is the foundation of any deal
- Stay focused on the seller's goals for the optimum transition of their client service legacy
- Make acquisition investment decisions based on a conservative cash flow model
- The only good deal works for the everyone - clients, buyer and seller
- Respect the acquisition learning curve – enlist the help of professionals

Additional Assessment Opportunities

Quick Practice Assessment

This complimentary analysis will help you think about your next 30 years.

Click to Begin:

<http://www.advisorlegacy.com>

Call us at 1-888-848-3349



Recommendations

Based on your valuation analysis and results, Advisor Legacy recommends the following items to improve the performance and efficiency of your practice. Please follow the link provided below to schedule a meeting with one of our Executive Coaches to learn more about the services we offer to help you accomplish these recommendations.

Develop a strategy to improve client segmentation.

These strategies normally include trimming clients and developing standards for new client acquisition. Our Executive Coaches can help you develop and execute this strategy.

Develop a strategy to improve efficiency & profitability.

These strategies normally include a deep dive into practice operations to identify opportunities for increased efficiencies. Our Executive Coaches/ Operations Team can help you develop and execute this strategy.

Develop a strategy for succession.

Our Acquisition and Legacy consultants can help you bring clarity to your goals for succession and the best path to achieve them. Advisor Legacy has extensive experience and resources to help achieve the best outcome for you and your clients.

To schedule an appointment with an Executive Coach:

[Click Here](#)

Glossary of Terms

Asset Velocity

The ratio of revenue to assets; also referred to as “Return on Assets” = (Total GDC/Assets under Management)*100

AUM

Assets under management (the total client assets being managed by the advisor/ practice)

Business Valuation

The act or process of arriving at an opinion or determination of the economic value of a business; or an interest therein

Cash Flow

The excess of sources of cash over uses of cash. Cash flow is used in performing the discounted cash flow analysis

Discounted Cash Flow

The present value of future earnings discounted at a rate that approximates the risk

Discount Rate

A “hurdle rate” that combines a risk free return rate and an industry specific liquidity risk factor

Earnings Analysis

An analysis of the amount of profit that a company produces during a specific period, which is usually defined as a quarter (three calendar months) or a year

- o Our analysis is for a ten year period and excludes owner compensation and non-payroll tax

Fair Market Value

The price at which a business would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell

GDC

Gross dealer concessions (the total revenue earned before payout)

Ibbotson Build Up

The Ibbotson method is called a “build-up” method because it is the sum of risks associated with various classes of assets. It is based on the principle that investors would require a greater return on classes of assets that are more risky

Net Present Value

The sum of the present values (PVs) of the individual cash flows of the same entity

Terms

Details of an agreement such as price, payment schedule, interest rate, tax allocation and timing

Total Revenue/GDC

Revenue generated before the advisor specific “payout rate”

- o Post Payout GDC: Revenue received after the advisor specific “payout rate” is applied
- o T-12: Trailing or previous 12 months

Transaction Based Revenue/GDC

Commission based revenue generated (up front) or non-recurring revenue

Assumptions and Limiting Conditions

This calculation engagement is subject to the following assumptions and limiting conditions:

- 1) The calculated value rendered in this report is based on information provided in whole or in part by the owners and also third parties. I have not audited or attempted to confirm this information for accuracy or completeness.
- 2) Public, industry, statistical, and other information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable. I make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
- 3) You and your representatives warranted to me that the information they supplied was complete and accurate to the best of their knowledge and that the financial or income tax information reflects the results of operations and financial and business condition in accordance with generally accepted accounting principles, unless otherwise noted. The financial information and other related information supplied by you and your representatives have been accepted as correct without further verification. I have not audited or reviewed on the financial information provided to me and, accordingly, I express no audit opinion or any other form of assurance on that information.
- 4) I have relied upon the representations of the owners and management concerning the value and useful condition of all equipment used in the business and any other assets or liabilities except as specifically stated to the contrary in this report. I have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or if you have good title to all assets, nor have I considered the responsibility of any parties with regard to environmental impact matters. In addition, I have assumed full compliance with all applicable federal, state, and local regulations and laws unless otherwise specified in this report.
- 5) My analysis and calculated value will be used only for its intended purpose and shall not be used to obtain credit or for any other purpose or by any other party for any purpose. Neither my work product nor any portions thereof (including any calculations or the identity of my Company, any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties other than in conjunction with this stated purpose by any means without my prior written consent and approval.
- 6) I am not required to give further consultation, provide testimony, or appear in court or other legal proceedings unless specific arrangements have been made.
- 7) My work product is valid only for the stated purpose as of the calculation date indicated. I take no responsibility for changes in market conditions and assume no obligation to revise my work product to reflect events or conditions which occur subsequent to the calculation date.
- 8) Full compliance by you with all applicable federal, state, and local zoning and use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated. Furthermore, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation including any environmental or ecological matters or interpretations thereof, unless otherwise stated.
- 9) This report and the calculated value arrived at herein are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The calculated value represents my considered opinion based on information provided by you and from other sources.

Assumptions and Limiting Conditions

Continued...

- 10) I do not provide assurance on the achievability of the results estimated in my report because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.
- 11) If prospective financial information approved by you has been used in my work, I have not examined or audited the prospective financial information and, therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.
- 12) Neither all nor any part of the contents of this report (including the conclusion of value, the identity of any valuation specialist(s), the firm with which such valuation specialists are connected, or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without my prior written consent and approval.
- 13) I have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.
- 14) No change of any item in this calculation report shall be made by anyone other than me, and I shall have no responsibility for any such unauthorized change.

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