



Assessing Your Business to Drive Efficiencies and Enhance Value

Agenda

- Why an ongoing assessment of business performance is important
- Business value review
- Business Assessment walk through

Supporting your Firm's Vision of Success

Marketing Your Business

- Value Proposition
- Target Client Profile
- Marketing Plan
- Referral Management
- Center of Influence Process

Client Experience & Operations

- Segmentation
- Client Services Checklist
- Sample Service Model
- Client Opportunity Review
- Technology Self Assessment
- Technology & Outsourcing Resources



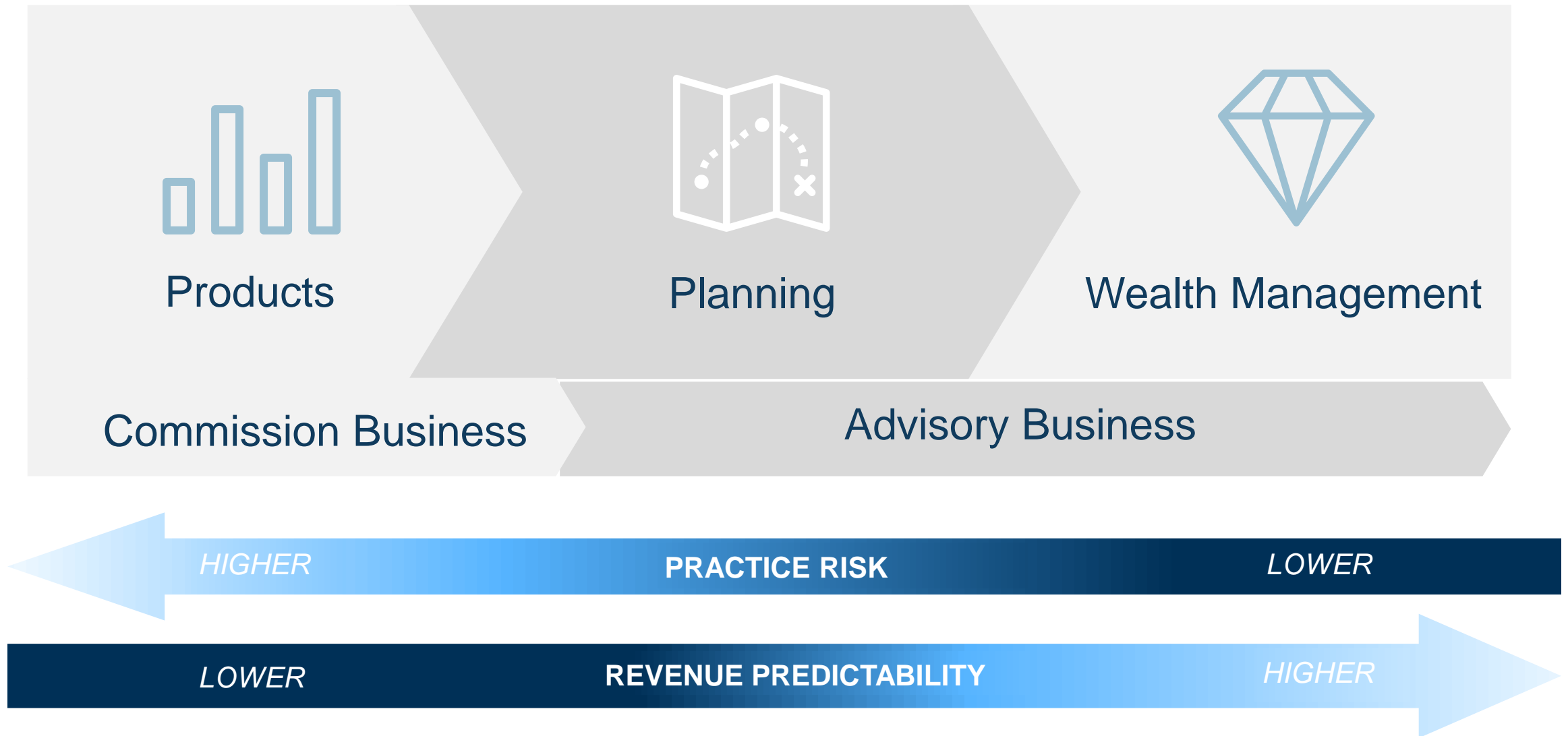
Business Strategy & Planning

- Business Assessment Tool
- Economic Modeling
- Creating a Powerful Strategic Plan
- Value Maximization Plan
- Goal Planning
- Monitoring & Tracking Progress

Empowering Your Team

- Sample Compensation Plan
- Compensation Strategy and Structure
- Sample Job Descriptions
- Career Ladders
- Performance Reviews
- Hiring and On-Boarding

The Industry Continues to Evolve



Getting Started with the Business Assessment Tool

Not all Revenue is Created Equal...

Avoid myths about business health and value

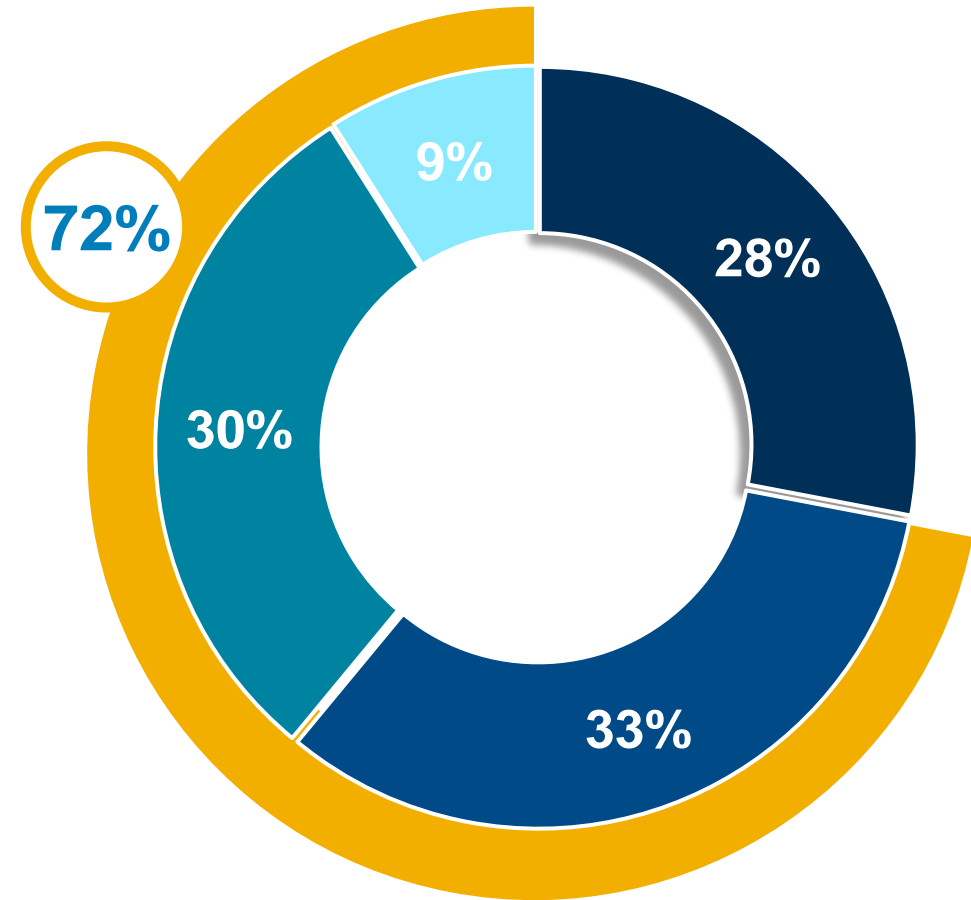
- Important to understand how our practice compares to our peers based on industry data
- Assessing and knowing where our practice is today, allows the ability to build for growth

Practice A	Practice B
500 households generating \$1,000 revenue each	50 households generating \$10,000 revenue each
Household average age: 75	Household average age: 55
100% commission-based	100% fee-based

Do you Have a Business Plan?

More than 70% of advisors do not have a formal business plan

- I have a formal, written business plan
- I set defined growth goals but **do not** have a formal business plan
- I set informal growth goals
- I do not set specific growth goals



Source: Financial Planning Association, "Drivers of Business Growth", 2014

Key factors that directly impact your practice...

- AUM
- Revenue mix
- Expense management
- Number of relationships
- Growth rate
- Marketing initiatives
- Service model & client experience
- Human capital

Source: State Street Global Advisors, Prioritizing Succession Planning, 2017

Adopt a Simple Process to Begin your Planning



DISCOVER



ANALYZE



IMPLEMENT

Multipurpose Report: Highlighting Health and Viability of your Firm



How am I doing compared to other advisors?

✓ **BENCHMARKING COMPARISON**



What are the strengths and weaknesses of my practice?

✓ **Value Maximation SCORE**



What is my business worth?

✓ **Informal VALUATION RANGE & COMPARISON TO PEER GROUP**

Sample Report

Benchmark Key Performance Indicators

Value Maximization Index

Informal Valuation Range

BUSINESS ASSESSMENT REPORT
SAMPLE REPORT
Prepared for:
ABC Company

Benchmark / KPI

Recurring Revenue per Advisor

\$467K
YOUR FIRM

\$319K
CLOSEST PEER

DEFINITION
The recurring revenue per advisor metric measures the amount of predictable, contract-revenue managed by each advisor in the firm.

IMPORTANCE
The greater amount of recurring revenue an advisor versus transactional revenue equates to a higher business valuation and potentially greater advisor profitability per relationship. Additionally, the greater the revenue per advisor, the greater the fiduciary responsibility each advisor has to the clients they serve, which could impact capacity issues.

SUGGESTIONS FOR IMPROVEMENT
* Increase client assets in investment solutions that generate ongoing revenue versus one-time
* Hire additional advisors staff to meet client demand

Benchmark / KPI

Total AUM per Client

\$475K
YOUR FIRM

\$1.0M
CLOSEST PEER

DEFINITION
The total AUM per client metric represents the aggregate amount of assets per client.

IMPORTANCE
The greater the assets per client/fundamental, the more attractive the business valuation may become to a potential buyer. Typically, the greater the AUM per client, the greater the revenue per client.

SUGGESTIONS FOR IMPROVEMENT
* Increase client asset share
* Target higher net worth clients
* Transition smaller clients.

TOTAL AUM PER CLIENT
The average amount of assets held in each client account.

HOW TO DETERMINE AUM PER CLIENT
Divide the total firm assets by the total number of clients.

Value Maximization Index

Value Maximization Index™

Firm Relative To Peer Group Benchmark
The Value Maximization Index™ (VMI) measures your firm's relative business risk, transferability, sustainability and potential growth. Your VMI is calculated based upon your responses to each value maximization indicator question, providing a total score in five key practice management areas. Your VMI is calculated based on your responses to 20 value maximization indicator questions in the five practice management areas: Business Strategy and Planning, Marketing Your Business, Client Experience and Operations, Empowering Your Team and Investment Proposition Score. By evaluating your business this way, we can work with you to understand your firm's "practice risk" and identify opportunities for improvement.

IMPORTANCE
By assessing your firm's relative business risk, transferability, sustainability and growth potential across the practice management areas, you can identify the areas where you should spend resources time and money to improve that area.

SUGGESTIONS FOR IMPROVEMENT
* Focus your resources in the areas with the lowest VMI score for greater gain
* Work with your Business Consultant or use the resources found in the Knowledge Center on Advisor Manager

Value Maximization Index

Value Maximization Index™ (VMI) Chart
Enter a % from 0 to 100 to represent the % of completing or % of accuracy of the question asked.
0% = 0% not completed/accuracy. For example, enter 0% if you have not started, or 60% to indicate 60% completion/accuracy.

BUSINESS STRATEGY AND PLANNING

MY ANSWER

I have a written business plan that is consistently monitored in order to drive firm growth. 0% 100%

I regularly track financial business metrics to ensure firm profitability. 0% 100%

All of my clients are in the accumulation stage of their financial lives. 0% 100%

All of my revenue is recurring and fee-based. 0% 100%

AVERAGE % 48.75%

EMPOWERING YOUR TEAM

MY ANSWER

I have invested in developing and growing a staff in line with my firm's strategy and goals. 0% 100%

I have a formal compensation plan, aligned with industry standards that motivates my team. 0% 100%

I focus only on revenue-producing activities and outsource or leverage my staff for everything else. 0% 100%

I am staffed optimally to effectively manage my workload and I have capacity for growth. 0% 100%

AVERAGE % 50%

Valuation And Optimization

Valuation Optimizer

PROJECTED OPTIMIZED VALUE
\$4,443,789

This is your new valuation based on the result of the adjustments made to the four variables listed above.

\$ YEAR VALUATION
Current vs. Historical Comparison

\$4,443,789 (Current)
\$3,485,785 (Year 1)
\$3,934,383 (Year 2)
\$4,217,800 (Year 3)
\$4,639,580 (Year 4)
\$5,163,538 (Year 5)

\$4.2M MULTIPLE OF REVENUE
The Multiple of Revenue (MOR) variable determines the intrinsic value by applying the different revenue models - recurring and one-time - to the firm's revenue streams as a value of Revenue. A value of multiple based on one practice revenue and does not take into consideration the expenses, staff/fiduciary, marketing (e.g. advertising, etc.) and other operating expenses, etc.

\$2.3M MULTIPLE OF CASH FLOW
This metric determines how long and how often to allow the buyer and seller to account for expected future revenue models - recurring and one-time - to the firm's revenue streams as a value of Cash Flow. Cash flow multiples consider expenses, such as salaries, operating expenses, and salaries. These metrics are significant if the acquisition target is a service-oriented, not an operating, target (e.g. an advisory firm). The selected base rate forecast the future cash flow to the firm.

\$4.3M DISCOUNTED CASH FLOW
The DCF metric is calculated after taking into account the value of a firm based on expected future revenue models - recurring and one-time - to the firm's revenue streams as a value of Discounted Cash Flow. The multiple represents the value of the firm then you've expanded the value based on the multiple of revenue and the value of the firm. The multiple represents the value of the firm then you've expanded the value based on the multiple of revenue and the value of the firm.

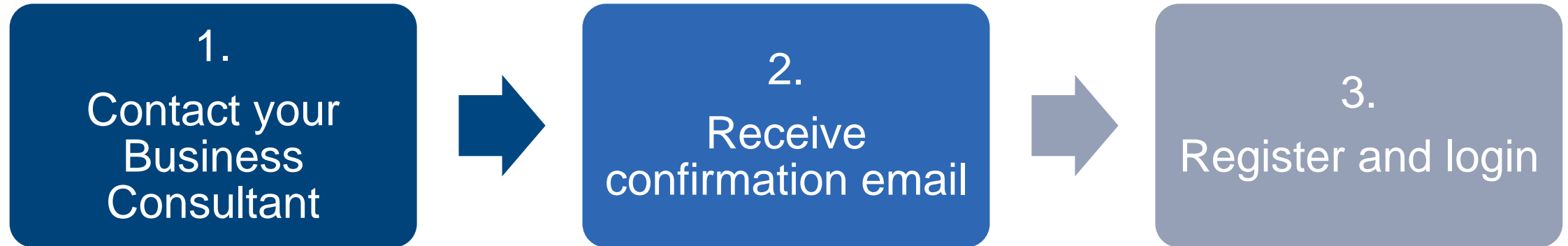
VALUATION IMPACT BUILDERS

Annual Growth Rate: 0% 100%
Revenue Quality: 0% 100%
Returns on Assets: 0% 100%

Risk Rate: 0% 100%
Indirect Expenses: 0% 100%

Annual Growth Rate: 0% 100%
Revenue Quality: 0% 100%
Returns on Assets: 0% 100%

Getting Started



LOGIN

[Forgot your password?](#)

[Click here to register](#)

LOGIN

Components of the Assessment



Segmenting Revenue Streams

RECURRING REVENUE

Predictable, stable revenue

Recurring revenue includes:

- Asset management fees
- Flat fees / retainer fees
- Trails (12b-1 fees, variable annuity trails, etc.)

NON-RECURRING REVENUE

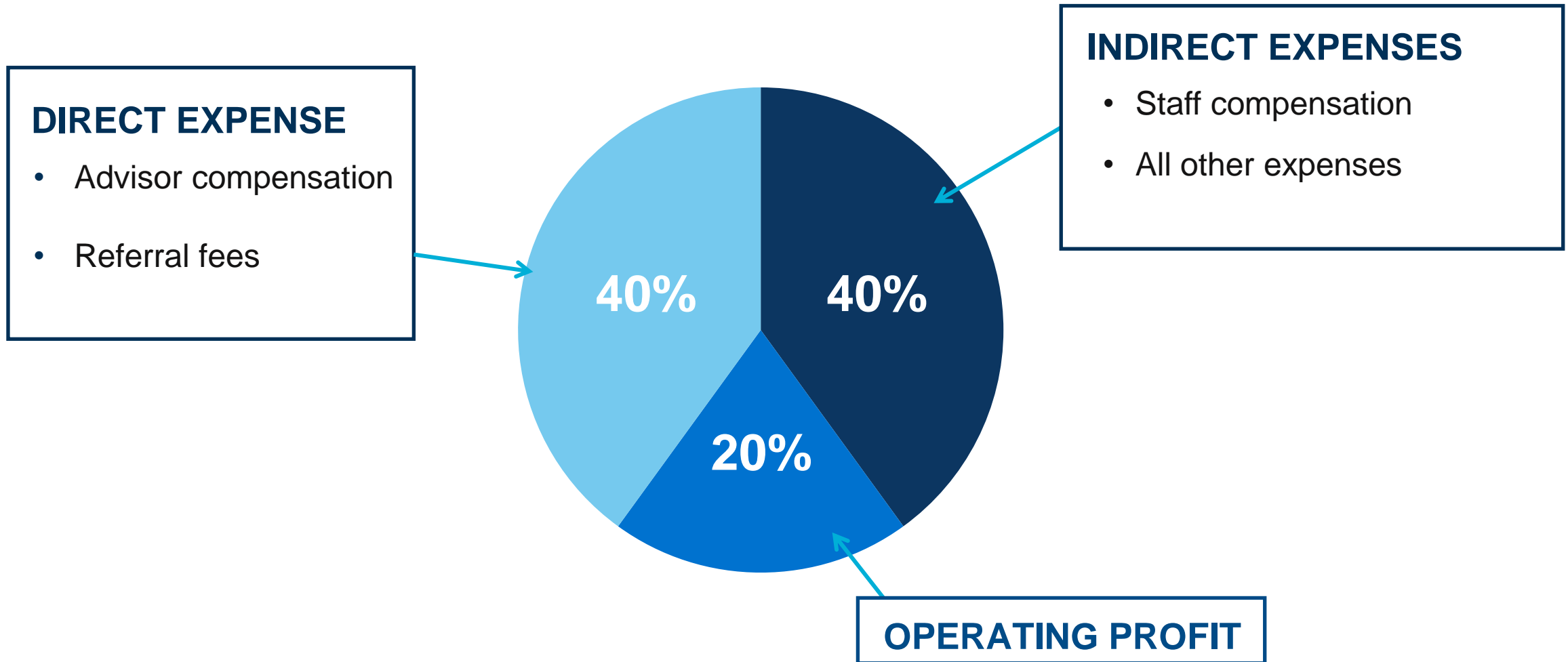
One time / time bound revenue

Non-recurring revenue includes:

- Commissions
- Consulting fees, hourly rates
- One time product sale

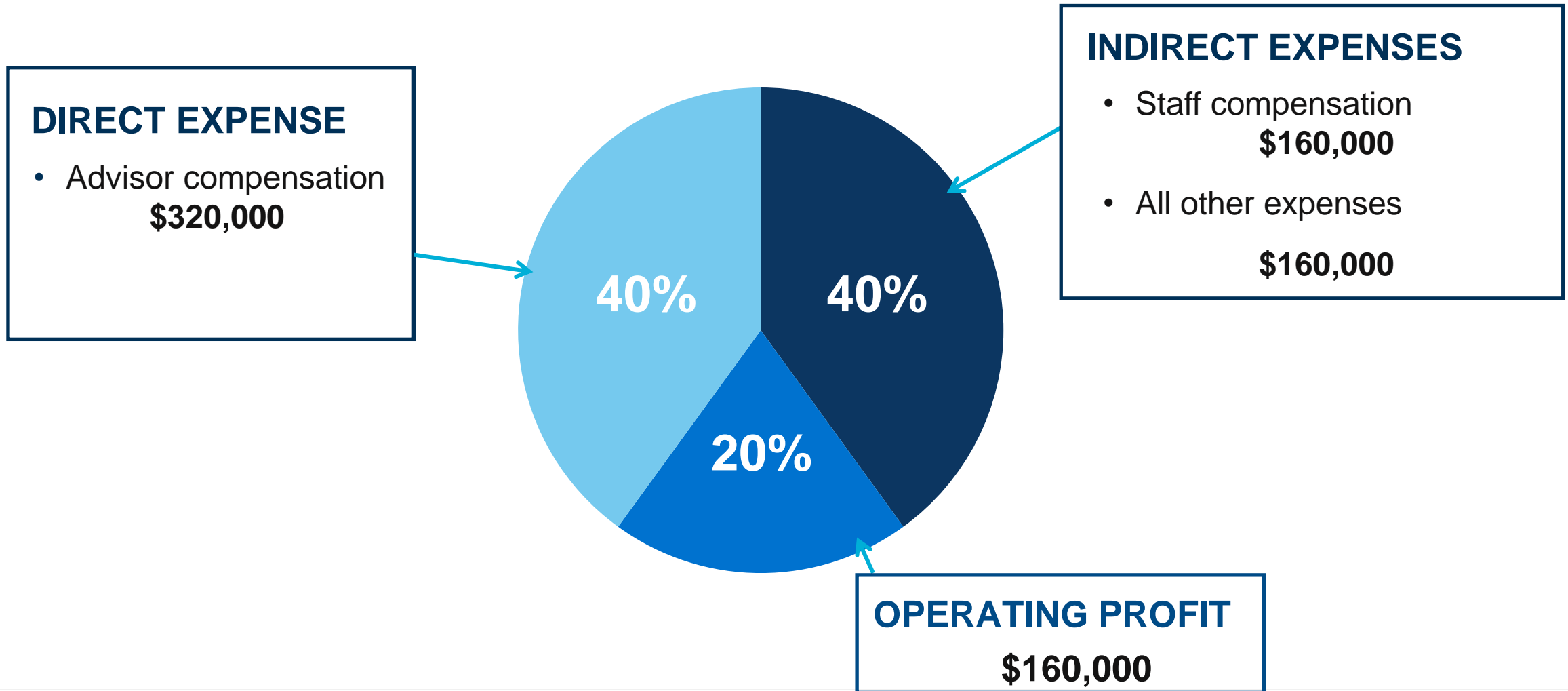
Understanding Firm Financials

Revenue comes into the firm and flows out in 3 core categories:



Firm Financials – Example for a Firm with \$800,000 Annual Revenue

Revenue comes into the firm and flows out in 3 core categories:



Firm Financials "Normalized"

	Original	Normalized
TOTAL REVENUE	\$500,000	\$500,000
DIRECT	\$20,000 (4%)	\$190,000 (38%)
INDIRECT	\$250,000 (50%)	\$200,000 (40%)
Staff compensation	\$100,000	\$100,000
Overhead expenses	\$150,000	\$100,000
Net Operating Profit	\$230,000 (46%)	\$110,000 (22%)

For advisor illustrative purposes only.

Normalizing Expenses



Owner compensation

(retirement
contributions/profit
sharing stripped out)

Car payments

Golf membership

Excessive travel costs

The Numbers Don't Tell the Whole Story

Value Maximation Questions

BUSINESS STRATEGY AND PLANNING

MY ANSWER

Click on a slider and drag with your mouse.

50%

I have a written business plan that is consistently monitored in order to drive firm growth.



I regularly track financial business metrics to ensure firm profitability.



All of my clients are in the accumulation stage of their financial lives.



All of my revenue is recurring and fee-based.



Marketing

Operations

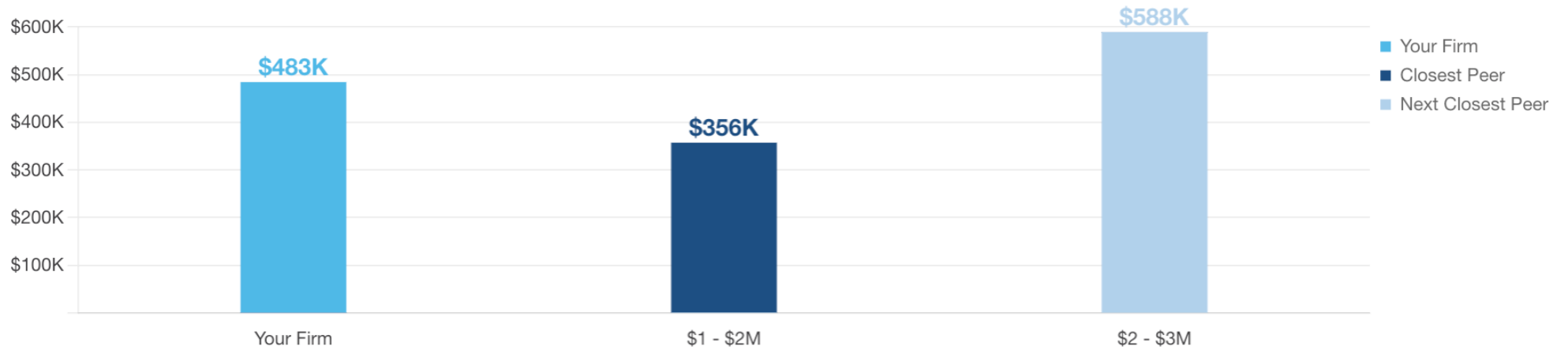
Human Capital

Investments

Analyzing Results

Output - Powerful Benchmark Comparison

— Recurring Revenue per Advisor



+ Recurring Revenue per Client

+ Clients per Advisor

+ Total Revenue per Client

+ Total AUM per Client

+ Total AUM per Advisor

+ Profit per Client

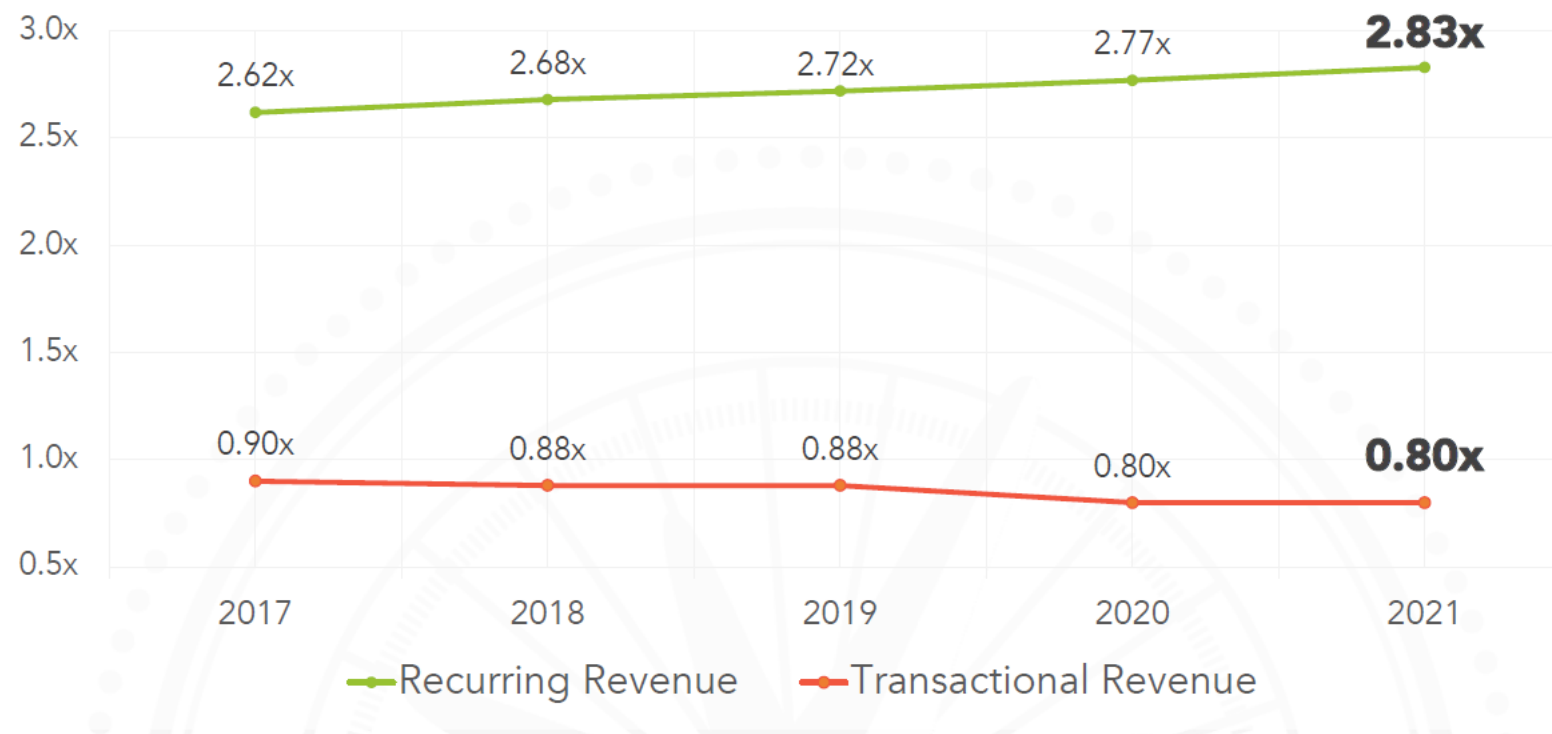
Do you Know How to Value a Potential Practice?

52% of advisors view valuing their practice **accurately and fairly** as a major challenge

Source: Cerulli, Advisor Metrics Report, 2022

Current Revenue Multiple Averages

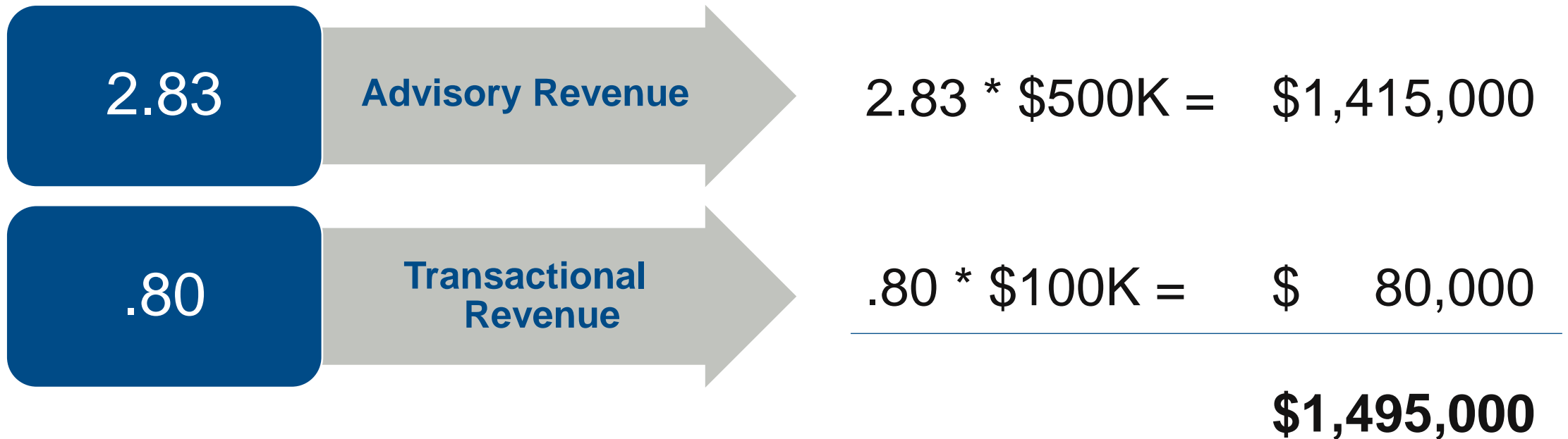
Multiples Update



Source: SRG 2022 Advisor M&A Review

Advisory revenue multiples continue to **increase** while transactional and non-recurring multiples continue to **decrease**

How to calculate your firm's value based on multiples of revenue



Source: SRG Advisor M&A Review 2020-2021

Various Methods Used to Estimate Firm Value

MARKET COMPARABLES	DISCOUNTED CASH FLOW	MULTIPLE OF REVENUE
<ul style="list-style-type: none"> • Extrapolate value, based on recent sales • Based on current market conditions 	<ul style="list-style-type: none"> • Value determined by PV of future cash flows • Increases accuracy, especially large firms 	<ul style="list-style-type: none"> • Simple • Easy to compute • Easy to understand and communicate
<ul style="list-style-type: none"> • Lack of sales volume • Lack of practice consistency • Subjective 	<ul style="list-style-type: none"> • Less common • More complicated • Best for acquisition of business 	<ul style="list-style-type: none"> • Buyers buy profit, not revenue • Does not account for expenses • High buyer risk

Estimated Valuation Calculation

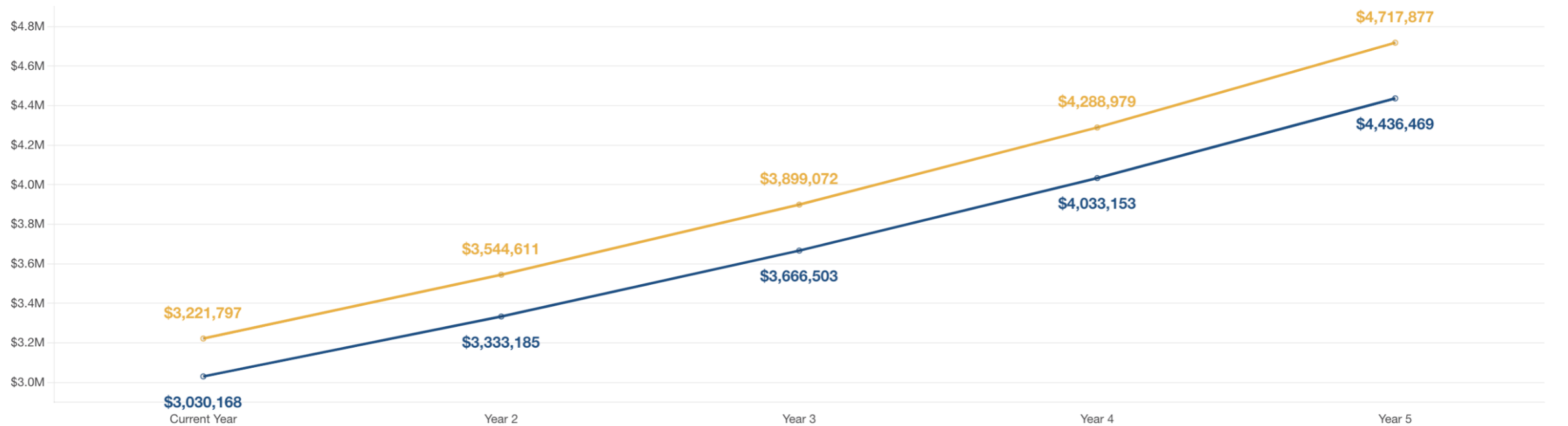
Valuation Optimizer

PROJECTED OPTIMIZED VALUE

\$3,221,797

This is your new valuation based on the result of the adjustments made to the four variables listed above.

5 YEAR VALUATION
Current vs. Optimized Comparison



*Our estimated valuation is within +/-5% of the value shown in the chart



\$4.9M
MULTIPLE OF REVENUE



\$2.3M
MULTIPLE OF CASH FLOW



\$2.5M
DISCOUNTED CASH FLOW

Impact Sliders

VALUATION IMPACT SLIDERS

Annual Growth Rate



Revenue Quality



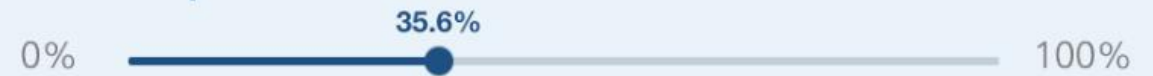
Return on Assets



Risk Rate

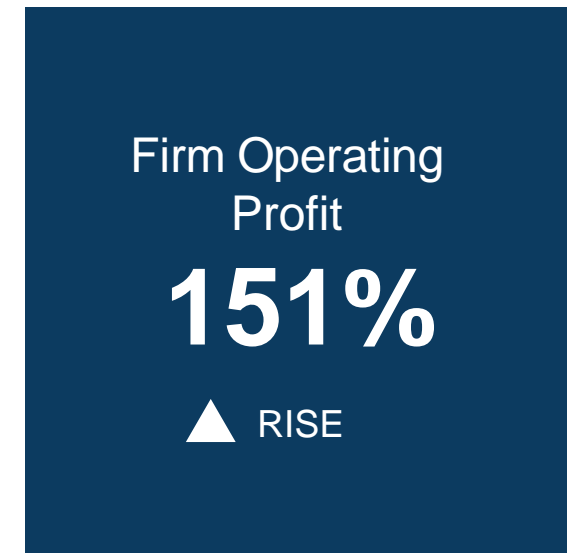


Indirect Expenses



One Advisor's Experience

Business Assessments from 2015 to 2020 show:



Source: AssetMark study based on advisor Jim Dew. Used with permission.

Pulling it all together



**“Failing to plan is
planning to fail.”**

-Alan Lakein, author

The Importance of Goal Planning



Goals



Distractions




Motivation



Achievements

Goals: Creating a Continuous Improvement Plan

When your mission & vision are clear, decisions are easy!



Your Mission and Vision for
the future drive the **GOALS**
you should plan for

- What do you want to build, based on your vision for the future?
- What do you need to accomplish to get there?
- How will changes you are implementing get you closer to your vision?

Target Key Areas of your Business for Improvement



Resource: Creating Your Strategic Plan



Annual Strategic Planning

Having a strategic plan in place gives you a clear idea of where you want to go and what actions you need to take to get there.

Use this Strategic Plan Worksheet to help define the elements of your annual strategic plan.



Creating Your Strategic Plan Worksheet *Interactive PDF*

For financial advisor use only.

Creating Your Strategic Plan

Use this strategic plan worksheet to define the elements of your strategic plan, you do to get there.



FIRM NAME: _____

YEAR: _____

In the space below, provide a summary of your current financial performance.

Creating Your Strategic Plan
For financial advisor use only.

BUSINESS PERFORMANCE

In the space below, input your current financial performance.

ASSETS UNDER MANAGEMENT:
 RECURRING REVENUE:
 NON-RECURRING REVENUE:
 GROWTH RATE (AVERAGE OF PAST 3 YEARS):
 NUMBER OF CLIENTS:
 DIRECT EXPENSES (40%):
 INDIRECT EXPENSES (40%):
 PROFIT (20%):

KEY PERFORMANCE INDICATORS

In the space below, input your key performance indicators.

RECURRING REVENUE PER CLIENT:
 RECURRING REVENUE PER ADVISOR:
 TOTAL REVENUE PER CLIENT:
 AUM PER CLIENT:
 AUM PER ADVISOR:
 PROFIT PER CLIENT:
 PROFIT AS A PERCENT OF REVENUE:
 CLIENTS PER ADVISOR:
 EXPENSE PER CLIENT:

Creating Your Strategic Plan
For financial advisor use only.

AssetMark | 02

BUSINESS DEVELOPMENT

In the space below, input client and business development goals for the upcoming year.

NEW CLIENT GOALS	CURRENT YEAR METRICS	NEXT YEAR'S GOAL
NUMBER OF NEW CLIENTS:		
AVERAGE AUM PER NEW CLIENT:		
AVERAGE REVENUE PER NEW CLIENT:		
BUSINESS DEVELOPMENT GOALS (Revenue / AUM)	CURRENT YEAR METRICS	NEXT YEAR'S GOAL
CENTERS OF INFLUENCE:		
REFERRALS:		
OTHER:		

BUSINESS SYSTEMS PROJECTS & GOALS

In the space below, input goals or projects for each of the business systems areas. When possible, goals should be SMART, and each project should define what steps are needed for completion - and who is responsible for each step.

BUSINESS STRATEGY & PLANNING "Develop a formalized financial benchmarking process"

-
-
-

EMPOWERING YOUR TEAM "Hire an associate advisor" or "Update the firm compensation plan"

-
-
-

Creating Your Strategic Plan
For financial advisor use only.

AssetMark | 04

AssetMark | 03

Resources your Practice Needs to Succeed

Value Maximization Index® | Worksheet

The **Value Maximization Index® (VMI)** assesses your firm's relative business risk, is calculated based upon _____, providing a total score _____.

BUSINESS ASSESSMENT TOOL | Worksheet

The Business Assessment Tool (BAT) provides you with a view of your business performance - allowing you to benchmark your firm, calculate key performance metrics, and highlight key performance indicators. You will also receive an informal estimate of the value of your firm.

The fields within this worksheet are the data points required to complete the online BAT.

Indicate the time period for your financial data: Annual Bi-annual Quarterly

Revenue Indicate below the amount you receive for each:

Recurring Revenue: predictable, continual revenue streams.

Non-Recurring Revenue: one-time or time-bound revenue.

Investment Advisor Fees	\$ _____	Planning & Consulting Fees	\$ _____
Securities Trails	\$ _____	Securities Commissions (current)	\$ _____
Insurance Renewals	\$ _____	Insurance Commissions (new or 1 st yr.)	\$ _____
Revenue from Qualified Plan Assets	\$ _____	Other Fees	\$ _____

Expenses

Direct Expenses relate to revenue-generating activities or professionals (ex: advisor salaries, commissions, bonuses, benefits).

Indirect Expenses relate to operating expenses, such as non-advisor staff compensation, rent, technology, insurance, and marketing.

Direct Expenses (Advisor Fees)	\$ _____	Indirect Expenses (all remaining firm expenses)	\$ _____
--------------------------------	----------	---	----------

Firm Size

# of Full-time Advisors	_____
# of Part-time Advisors	_____
# of Full-time Non Advisors	_____
# of Part-time Non Advisors	_____
# of Client Relationships	_____

Client Assets

Fee-based Assets	\$ _____
Commission Assets	\$ _____
Trail Assets)	\$ _____
Qualified Plan Assets	\$ _____
Est growth rate %	_____

Content provided by AssetMark. Used with permission.

Creating Your Strategic Plan



Annual Strategic Planning

Having a strategic plan in place gives you a clear idea of where you want to go and what actions you need to take to get there.

Use this Strategic Plan Worksheet to help define the elements of your annual strategic plan.



Creating Your Strategic Plan Worksheet *Interactive PDF*

For financial advisor use only.

AssetMark | 02

Summary

- The industry continues to evolve
- Evaluate the value of your practice using financial and non-financial methods
- Target key areas of improvement





Learn how AssetMark
can help take your practice
to the next level.

Call one of our Consultants at
(800) 664-5345
or visit assetmark.com/events
to see replays or register for
upcoming webinars

Important Information

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal, or tax advice. The information has been drawn from sources believed to be reliable, but its accuracy is not guaranteed, and is subject to change.

Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. AssetMark and third-party service providers are separate and unaffiliated companies, and each party is responsible for their own content and services.

©2021 AssetMark, Inc. All rights reserved.

105113 | M22-101724 | 12/2022 | EXP 12/31/24