aRIA
Alliance for Registered Investment Advisors

Creating value and certainty within your independent advisory firm

Part III: Myth vs. reality: What is your independent advisory firm really worth?

Introduction

Independent advisors are inundated with a variety of information surrounding the present and future value of their businesses. Although many advisors do an outstanding job helping clients manage their net worth and personal equity, more independent advisors need to take the opportunity to manage their own business equity.

Managing your equity is like managing any other investment. Emotion can be one of the biggest enemies of a successful investor and can blind advisors from implementing best practices around the key drivers of value. This can lead to deferral of addressing key issues that may ultimately result in an erosion of an advisor's business value.

As astute investors of their clients' capital, independent advisors understand that the value of any investment is represented by the present value of the future cash flows. The same holds true for independent advisors' businesses. Although this concept is widely accepted, aRIA wonders: Why do so few advisors only focus on the value of their current revenue versus the future cash flow their businesses can generate?

Independent advisors have made great strides over the years to improve the certainty of their future cash flows. Most entities are generally fee-based practices that charge a recurring fee, and many advisors have low attrition rates—two strong drivers of future value. The industry has also seen a significant shift away from product selling/commission sales to fee-based advice/wealth management.

Although independent advisory businesses may be healthier now given recovery in the markets, a concept that is frequently ignored is "What would a sophisticated internal or external buyer with an understanding of the independent advisory industry pay for my business?" Said a different way: "What are the inherit risks in my business that may drive a future buyer to severely discount the future cash flows of my business?" Or, said even another way: "What is the true present value of my business right now?" For advisors who are seeking to maximize the value of their business, understanding the mechanics of value is a critical element of sale planning.

Neal Simon, President of Highline, captured this notion by commenting, "We run Highline as if we were going to take it on a roadshow to a group of investment bankers, even though we have no intention of selling." A best practice all advisors should consider is to run your business like you are preparing to sell it. Here's why:

1. All advisors benefit from understanding the underlying mechanics of buying and selling an advisory practice.
2. Your current circumstances could change due to an unforeseen event.
3. Firms that are run like a business generate the most cash flow, may have higher growth rates and ultimately increase their options in terms of capital structure.

The first two aRIA white papers focused on the future of the independent advisory space and how to create scale, value and certainty within your business. This white paper will provide insight on how aRIA advisors think about managing their own business equity and provide advisors with a tactical overview of the key drivers of value.

aRIA
Alliance for Registered Investment Advisors

As always, we welcome your questions, comments and friendly debate!

Contact us:

Brent Brodeski, Savant Capital Management;
bbrodeski@savantcapital.com

John Burns, Exencial Wealth Advisors;
jburns@exencialwealth.com

Ron Carson, Carson Wealth Management;
rcarson@carsonwealth.com

Jeff Concepcion, Stratos Wealth Partners;
jconcepcion@stratoswp.com

Matt Cooper, Beacon Pointe;
mcooper@bpadvisors.com

John Furey, Advisor Growth Strategies;
jfurey@advisorgrowthllc.com

Neal Simon, Highline Wealth Management;
nsimon@highlinewealth.com

Determining the value of your business

Past aRIA white papers noted that advisors may have preconceived notions of what their firm is worth that are more based on aspiration versus practical reality. The market/media may have done advisors additional disservice by highlighting and showcasing high-profile/ultra-premium deals in the marketplace. For example, in 2012, Luminous Capital sold its $5.5 billion in assets under management RIA to First Republic Bank for a reported $125 million in cash up front.[1] The price and terms of this transaction stunned many leaders in the industry after completing back-of-the-envelope math on the present value of Luminous. Clearly, a "strategic buyer" was placing a very large premium on the future cash flows of Luminous!

The Luminous deal is indicative of the double-edged sword effect that high-profile deals have on the industry. First, deals such as this bring attention to the RIA market and provide a case study on how value can be unleashed when business equity and growth are managed effectively. Luminous was only in existence for four years, with the partners tripling the size of their assets after the partners left Merrill Lynch. Not a bad reward for a startup business that took tremendous risk leaving one of the largest brokerage firms in the country.

However, deals like this may create a sense of overconfidence with advisors that observe the transitions and think they will gain a "halo effect" through increased valuations that a well-run business achieved. A negative outcome could be the creation of a "multiple gap" where advisors perceive the value of their business to be far higher than what an educated buyer would be willing to pay for it. This gap in expectation may ultimately turn into a deal killer for a proposed internal or external transfer of equity.

The harsh reality is that the drivers of value have not really changed, only the market participants have! Firms may pay more or less for independent advisors in the future, but advisors who want to *command a premium* must focus on the drivers of value. This leads to one of the key questions an advisor must ask themselves and answer honestly: "Am I better off creating value and certainty as a stand-alone entity, or are there other models I should explore?"

1. "First Republic pays a staggering sum for Luminous Capital," RIABiz, November 8, 2012.

Value Drivers of an Independent Advisory Business

$$V=\frac{CF}{R-G}$$

Figure 1

> "Nowadays people know the price of everything and the value of nothing."
>
> Oscar Wilde

V=CF/R-G

Any astute buyer or transaction advisor will tell you the value of an independent advisory business is simply the present value of all its future cash flows. Because independent advisory firms do not manufacture a physical product and have very limited book value, buyers of advisory firms are essentially purchasing goodwill. They're buying the advisory firm's ability to generate cash flow in the future from recurring fees charged for wealth management and investment management services.

Given that buyers are seeking to predict how much to pay for goodwill, they will seek to understand the underlying business drivers of value (see Figure 1).

1. **Cash flow (CF)**
   Cash flow represents the profitability of an advisory firm. Cash flow is usually measured by earnings before owner's compensation (EBOC); earnings before interest, taxes, depreciation and amortization (EBITDA); or a variant of this. Advisors who want to maximize value seek to grow cash flow at a high annual rate, maximize operating leverage and provide consistent returns to owners.

2. **Growth (G)**
   Growth represents the rate of organic growth of an advisor's business. Usually the best proxy for growth is net new revenue – client additions less client attrition. In the past, market growth was able to mask potential deficiencies in growth, but that may not be the case in the present and the future. Growth from mergers and acquisitions may or may not be included as a growth driver.

3. **Risk (R)**
   Risk represents the potential for future cash flow to be derogated. This is usually the most vague and unfamiliar ground for advisors who are trying to maximize their value. Risk includes factors such as client and employee demographics, operating model, stability of ownership team, revenue risk from potential key employee departures, ability to maintain margin and concentration risk of revenue.

Given this construct, advisors can maximize the value of their business by increasing cash flow as a percentage of total revenue, increasing their growth rate and reducing risk to future cash flow of their business. Sounds simple in concept, but it is challenging for most advisors in practice.

Brent Brodeski, President of Savant Capital Management, notes, "We feel we have a best-in-class growth rate (16% without changes in asset values), but growth is not enough to drive business value. We have done quite a bit of work to limit the future risk to cash flow by diversifying our business lines, implementing a team-based approach to the client experience and pushing down relationship management responsibilities from owners to the team. If a key advisor or staff left the firm, our expectation is the impact to revenue and cash flow would be minimal."

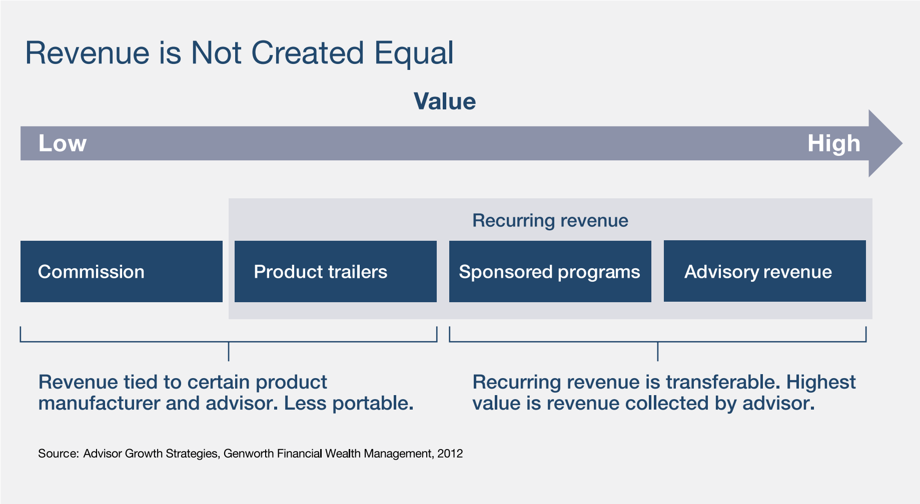

Figure 2

Is your revenue "portable"?

All cash flow is not created equal. Should a buyer be expected to pay the same multiple for cash flow that was derived from revenue of a commission product with a trailer versus recurring fee-based revenue? Can revenue from a unique client scenario be expected to happen to another client of an advisor (e.g., the revenue event can be viewed as recurring)? The answer is that the cash flow may recur, but the predictability is less certain; that is one of the reasons different multiples are assigned to different revenue streams and to different firms (see Figure 2). John Burns, President of Exencial, noted, "We moved away from commission products and product types that are less transferable years ago. We are now fee-based without any link to less portable products, which we feel is more valuable."

Firms are valued by how predictable the cash flows in the future may be. Market cycles teach us that advisor revenue is linked to market performance, clients' withdrawal needs or ability to add assets and the ability of the firm to manage expenses in good times and bad. Given this, potential buyers may put material discounts on future cash flows an advisory firm can generate. It is not uncommon for risk rates of advisory firms to be 20% or more!

Key drivers of value: Closing the multiple gap

Understanding the key drivers of value will help you lower your risk rate, which will ultimately increase firm value.

Understanding the key drivers of value will help you lower your risk rate, which will ultimately increase firm value. Given that no advisor can control the economic climate and the markets, advisors can focus on items they can control from a business management perspective. Below are some of the key levers of value, in a relative order of importance.

1. Size:

The most obvious driver of value is size – it does matter! Larger firms command higher multiples because future revenue is more predictable over a larger and broader client base. This is simple supply-and-demand economics. There are many smaller advisory firms available versus firms that have billions in client assets. In addition, there is an inverse relationship between risk and total clients, assets, and revenue. The more revenue that exists, the greater potential for less risk. Larger strategic buyers may be willing to pay a premium for a larger firm simply because there are fewer of them and they have taken steps to reduce risk to future cash flow. Advisors may be failing to realize there is opportunity to reposition their equity into a larger firm to decrease risk and potentially increase their multiple.

2. Revenue growth:

The ability and track record of the firm to increase revenues sustainably over time. Savvy buyers look at organic growth rates (without market returns) and put valuation premiums on top growers.

3. Revenue source:

As described above, revenue type is a critical element of value. Commission-based revenue commands a low multiple, while recurring fee-based revenue legally tied to the advisor is the highest value. A common misconception is independent broker/dealer contractor representatives feeling they "own" the fee-based revenue being run through a corporate RIA. Although this revenue is higher value versus a commission product, it is not as valuable as revenue generated by an independent RIA. Why is this? If a buyer came along and wanted to purchase the advisory firm, clients would likely have to be "repapered" with new advisory agreements, creating transition risk. In addition, client agreements are signed with the broker/dealer, not the advisor, putting the portability of assets into greater question. In addition, the legal and contractual relationship is usually between the broker/dealer (not the advisor) and the client.

4. Client demographics:

Analyzing a client base is a key element of assessing future value of cash flows. Just like an advisor manages a portfolio, attention should be paid to a client portfolio if the advisor wants to maximize business value. Below is a list of the most prevalent drivers buyers look for and how to strengthen your portfolio of clients.

- **Client concentration:** A well-diversified client base of different size and amount of revenue is more valuable than a portfolio of clients that has revenue concentration of a small group of clients. Buyers see risk if revenue and cash flow is tied to a relatively small amount of clients.
- **Client tenure:** A measure of client loyalty. The longer client tenure, the higher the value.
- **Net new client ratio:** This is the ratio of new clients versus attrition, usually measured by assets. The higher the ratio, the more valuable the firm.
- **Client age:** Clients who are younger and accumulating have a longer "runway" than clients who are older and likely drawing down assets. For advisors with older client bases, buyers will want to understand the likelihood of revenue staying with a firm when a client becomes disabled or deceased and whether there is a

aRIA
Alliance for Registered Investment Advisors

relationship with the next generation (e.g., clients' children).

- **Service adoption:** For advisory firms with multiple business lines, adoption of value-added services is measured to understand how "sticky" a client relationship may be. Advisory firms may offer services such as tax, asset protection and trust administration to clients. To the extent the client is more wedded to the advisory firm, the future revenue is more predictable.
- **Business line diversification:** Larger independent entities may expand to different markets. Revenue diversification lowers risk. For example, a firm may have a private wealth business, in addition to servicing endowments. Some firms may expand into sub-advisory or create an online RIA. aRIA members are currently developing and implementing complementary business lines to expand revenues and diversify their revenue. A portfolio of clients from different business lines may be an attractive feature to buyers.

5. Relationship of revenue to owner versus the firm:

Although this concept may be counterintuitive to many advisors, revenue that is tied to a person has less value than revenue that is tied to a firm. This is where many advisors can fall into an "annuity trap" or become complacent. If the revenue is solely linked to the individual, if the person is linked to the revenue and the revenue leaves, clients may flee. Advisors that are sole proprietors may have limited options toward retirement if there is no internal capability to retain relationships. Advisors in this camp may consider adding staff, if economically feasible, or find a suitable firm to join forces with well before exiting the business. This concept can be reviewed more fully in past aRIA papers.

6. Compensation and expense management:

aRIA feels that pricing is fairly homogeneous across independent advisors with little differentiation in terms of fee schedules. So, if the revenue derived from a client asset is generally equal, advisors can differentiate themselves via compensation and expense management. Obviously firms that show expense management acumen and a lower-cost employee base (without quality derogation) is more valuable.

Advisors should take the opportunity to benchmark their model versus free benchmarking reports available from custodians and trade publications. For professional staff, advisory firms that attract professionals via deferred compensation, equity awards and other forms of retention plans get a premium as these employees are more likely to stay through a transition to participate in any internal or external sale.

7. Employee demographics:

Firms that have loyal and long-standing employees with client relationships (beyond the owners) are more valuable, with employee tenure being the key metric. In addition, firms that have established employment agreements to protect revenue (e.g., non-solicit and non-compete) are more desirable, assuming they are likely enforceable.

8. Advisor affiliation model and legal framework:

In general, RIAs have the most control over their business and therefore will command a premium versus their independent contractor counterparts that are more reliant on their broker/dealers. Additionally, the ability for an effective legal transfer from seller to buyer is related to the legal construct of the seller. For example, there could be advisory firms that have minority owners that may not be willing to sell their shares, complicating a transaction, if there are no stated provisions within a firm's operating agreement.

Effectively applying risk premiums and discounts to your business

One simple and ready-to-use utility to understand the relative strengths and weaknesses of your business is a benchmark report. To find out how to participate in one, advisors can simply reach out to their broker/dealer or custodian relationship manager for a recommendation and/or introduction.

For more precision, advisors could consider having an appraisal done. There are providers in the industry that will perform a cursory appraisal (more canned in nature) for a low cost. For advisors that are considering a material change in ownership, having a detailed appraisal done may be worth the price, given the cost of the appraisal is low, relative to firm value. Investment banks, transaction advisors and consulting firms are increasing their services to address future demand. To find an entity that may suit your need, advisors may want to seek a trusted referral from a peer or service provider in the industry.

Valuation methods employed in the independent advisor space

"Price is what you pay, value is what you get."
Warren Buffett

Understanding the value drivers of your business is the first step in taking the leap to managing business equity effectively.[2] Equally as important is to understand the approach a potential buyer, an investment bank or a transaction advisor will use to value your firm. The short answer is there is no right or wrong answer, but there are emerging industry norms worth discussing and certain methods may be more useful than others.

Although information freely available in the market could be used to generally estimate value, advisors can only get to greater precision through an objective appraisal completed by a third party. For example, it's easy to make a back-of-the-envelope estimate that a firm is worth five times cash flow. However, what if the firm was appraised at four times cash flow because of discounts that were applied against the business? If the cash flow is $500,000, the difference between the multiples is real money! Wouldn't a prudent advisor want to understand the relative drivers of their business that are decreasing its value? At the end of the day, valuations are opinions and a guide; however, the true value of an independent advisor business is what is actually realized after a transaction is completed.

A common question advisors ask is "What multiples are buyers paying for a firm like mine?" That question is simple enough, but any industry expert worth their mettle would tell the person that question can't be answered without understanding the drivers of value within the advisory business. An alternative answer would be to throw out a range that is so broad, it's not useful to the person asking the question.

The key to understanding what the value of an independent practice could be is to realize most appraisals are based off a benchmark (industry norms), then

2. See aRIA papers Part I & II

aRIA
Alliance for Registered Investment Advisors

Common Valuation Methods in the Independent Advisory Industry

Valuation Method	Revenue Multiple	Cash Flow Multiple	Discounted Cash Flows
Description	‣ Simplest method ‣ Enterprise value determined on a multiple of revenue ‣ May be used as a proxy for discounted cash flow method	‣ Value determined by multiple of cash flow ‣ EBITDA and EBOC preferred ‣ Used by most sophisticated buyers and M&A firms	‣ Predictive model of future cash flow, discounted to today's value ‣ Discount rates can be very high (20% or more)
Pros	‣ Easy to understand and straightforward ‣ Simple terms for internal transfers	‣ Based on cash flow ‣ Focus on profit of each revenue dollar ‣ Cash flow multiple may provide negotiating flexibility	‣ Allows buyers and sellers to account for future risk and predict future economics ‣ Similar to how public companies are valued
Cons	‣ Does not account for expense model ‣ Does not predict cash flow of future owner ‣ Highest risk for buyers	‣ Does not seek to forecast future cash flows, although could be viewed as a proxy ‣ Post-transaction revenue and expenses could vary and impact cash flow	‣ Most complicated method ‣ Difficult to predict future cash flows given market cycles ‣ Limited socialization in RIA and IBD space
Used in the market	‣ Independent B/Ds and wirehouses ‣ "Back-of-the-envelope" estimates	‣ Most common method ‣ Used in RIA space frequently ‣ Wide range of multiples: 3x to 10x cash flow used	‣ Emerging valuation method, sophisticated buyers moving this direction ‣ Usually lowers valuation due to discount rates

Figure 3

relative premiums or discounts are taken to derive a market-based valuation. A great deal of time is focused on just the multiple, but more time needs to be spent to understand what is driving the multiple.

There are several common ways to value professional services businesses. The common methods within the independent advisory space are described in Figure 3.

In addition to these quantitative methods, most appraisals will also include a market comparables aspect that shows the user of the appraisal how similar firms in the industry were appraised. The challenge with market comparables is that purchases and sales for independent advisory firms are private. Even if the price becomes public, the terms of the transaction are opaque.

For example, an independent advisory firm could be sold for what is perceived as a premium, but if the transaction included very little cash up front from the buyer and future installments tied to an earn-out that has growth provisions, the outcome to the seller is quite uncertain. This is why a market comparables

aRIA
Alliance for Registered Investment Advisors

Using a cash flow method allows for buyers and sellers to look at all the levers an independent advisor can pull to grow cash flow.

approach to valuation is usually left to be used as a point of reference.

Revenue multiple

Revenue multiples have historically been associated with sales of professional firms such as accounting and consulting businesses, given the more commission-based nature of the business. Revenue multiples are used in the independent advisory community, but the application is widely misunderstood or misused.

Does the use of revenue multiples widen the multiple gap? Revenue multiples can be useful to effectively communicate business value to a layperson if more sophisticated valuation methods were used. For example, a provider completing an appraisal may use a discounted cash flow or market comparables approach but communicate the result in terms of a revenue multiple.

Revenue multiples also find use and utility within the independent contractor space (versus RIAs) as independent contractor representatives have less control over their expense model and therefore their cash flow. Several independent broker/dealers may link up buyers and sellers within their firms and use a revenue multiple.

Cash flow multiple

This is the current method of choice within the independent advisory space. Using a cash flow method allows for buyers and sellers to look at all the levers an independent advisor can pull to grow cash flow. This also allows buyers to understand what they are truly buying.

The differences between the various types of cash flow multiples in the industry can be found by searching the Internet or any public domain medium. The primary cash flow multiples used in the advisor industry are:

- EBITDA (Earnings before interest, taxes, depreciation and amortization)
- EBIT (Earnings before interest and taxes)
- NOI (Net operating income)
- EBOC (Earnings before owner's compensation)

Whatever cash flow method is used, buyers will seek not only to take discounts and premiums off the cash flow multiple, but also to make adjustments to cash flow based on one-off events or non-core business activities that may go away in the future. Examples include:

- Disproportionately high or low owner compensation
- Owner's personal expenses that are being run through the business
- One-time revenue events such as commissions from product selling
- One-time expenses not expected to occur in the future
- Restatement of depreciation and amortization
- Any relative "carving out" of clients, revenue and expenses related to ongoing business operations

One common misunderstanding is the definition of what cash flow truly is. Owners of investment advisory firms may believe their cash flow is "revenue – all firm expenses = cash flow." That may be true from the owner's perspective, but a buyer of the firm would want to separate the value of work an advisor does as a professional (or the replacement cost of the owner) versus the residual cash flow that could be distributed to a future owner. This is illustrated in Figure 4 on page 11.

aRIA
Alliance for Registered Investment Advisors

Owner Compensation has Two Components: Salary and Cash Flow

Total Revenue	$1,000,000
Recurring fees	$900,000
Commissions and trails	$100,000
Expenses	**$500,000**
Junior advisor	$100,000
Support staff	$150,000
Rent/office expenses	$150,000
Marketing and sales	$25,000
All other expenses	$75,000
Income to owner	**$500,000**

Buyers usually look at replacement value of owner to determine cash flow that can be derived.

Total Revenue	$1,000,000
Recurring fees	$900,000
Commissions and trails	$100,000
Direct Expenses (Professionals)	**$350,000**
Owner (replacement value)	$250,000
Junior advisor	$100,000
Overhead	**$400,000**
Support staff	$150,000
Rent/office expenses	$150,000
Marketing and sales	$25,000
All other expenses	$75,000
Cash Flow	**$250,000**

Figure 4

Advisory firm owners seeking to sell their firms or transition to an alternative model/ platform need to model and analyze what their future outcomes could be and what remedies are available if the transaction does not work out.

The danger of not understanding the difference between cash flow and total owner compensation leads to a misunderstanding of total firm value. If the firm in the example in the chart was valued at a five times multiple of cash flow, the owner may believe his firm is worth $2.50 million, where an astute buyer may see the firm's value at $1.25 million.

aRIA feels wide gaps in perceived versus actual value of an independent entity will be one of the biggest challenges in the future as owners near retirement age.[3] Advisory firm owners may have an inflated view of their firms' worth, while prospective buyers will view cash flow differently and seek to put relative discounts and premiums accordingly.

The price is right! Or is it?

A great deal of attention is paid to valuations and price, but equal if not more attention needs to be paid to terms if an independent advisor went down the path of wanting to sell their business through an internal or external sale. With any potential transaction, there are risks to a buyer and a seller. Both parties will and should seek protections if the outcome isn't as planned and will want to participate in the upside if things go fabulously.

Advisory firm owners seeking to sell their firms or transition to an alternative model/platform need to model and analyze what their future outcomes could be and what remedies are available if the transaction does not work out. For example, transactions could have "clawback" features (a deduction from the final price) if future cash flow targets are not met. Larger and more strategic buyers may want preferential rights to future cash flow prior to any distribution to an advisory firm seller. The final installment of the aRIA white paper series will explain the primary models available to advisors and the term features, benefits and risks each transaction has to offer.

3. See aRIA's first white paper "The Evolution of Value Creation," www.allianceforrias.com

aRIA
Alliance for Registered Investment Advisors

Conclusion

Knowing the true value drivers of an independent advisory firm is a key consideration for advisors who want to ensure their firms have business continuity and want to have multiple options available to them in terms of transfer of ownership in the future. Advisors should take the opportunity to understand the drivers of value to better understand the relative strengths and weaknesses that will drive a discount or premium to their practice value.

Advisors who are serious about managing their business equity should guard against emotional barriers that could lead them into the multiple gap. aRIA is hopeful advisors find this white paper useful and hopes many advisors choose to address the drivers of value. However, how many will given the potential emotional pain in doing so?

As the market for advisory firms becomes larger and more sophisticated, sellers will increasingly come across more buyers who are astute and will want protections if future cash is not generated at the level that is forecasted. To that end, advisors should understand that price and associated multiples are only half the story. Terms are equally important.

Case Study

BEACON POINTE
WEALTH ADVISORS

Beacon Pointe Wealth Advisors: Driving accretive value for affiliates

Beacon Pointe is one of the largest independent RIA entities in the United States. With more than $5 billion in client assets, Beacon Pointe has experienced dramatic growth since the firm's inception in 2002. Beacon Pointe provides fiduciary advice to high-net-worth individuals as well as endowments, foundations and institutions. Beacon Pointe adds value through their advisory services and their unique research approach to finding undiscovered managers that exceed their rigorous criteria.

In 2011, Beacon Pointe formally launched Beacon Pointe Wealth Advisors (BPWA), an "enterprise-building partnership" between like-minded financial advisors and Beacon Pointe. The concept of BPWA was to provide financial advisors with scale through the Beacon Pointe engine, a platform to accelerate growth and a unique succession solution that takes risk and uncertainty off the table for advisors. Matt Cooper, President of BPWA, notes, "We are an RIA first, not a financial model or consolidator; we have not taken funds from outside investors. Instead, we are trying to grow value organically by providing our advisor partners with a larger platform to grow."

The model of BPWA is straightforward. Advisors swap the equity in their existing business for shares of BPWA. With that, they get exclusive rights to their local market and gain the full depth and breadth of Beacon Pointe's platform. In addition, BPWA provides advisors with opportunities to collaborate and retain control for key areas of their business, such as sales, relationship management and marketing. See Figure 5 on page 13.

BPWA is a platform that is trying to solve a few of the major long-term issues

aRIA
Alliance for Registered Investment Advisors

Figure 5

advisors are facing in terms of managing business equity. Firms that can show the following three attributes usually get a premium over other firms:

- Scale is a premium rewarded to firms that can show operating leverage and margin expansion.
- Organic growth rate is one of the top attributes that drive the future value of cash flow.
- Size matters. Larger firms command larger valuation multiples and drive lower discount rates for risk.

Cooper notes, “Many advisory firms have long-term exposure to risk in their businesses that they are not realizing at this point, given their businesses are delivering a nice take-home pay each and every year. These advisors will eventually come to the realization they are extracting the enterprise value year in and year out, and there may not be much of a residual value when they exit the business. The market has become more sophisticated; there are no dumb buyers that are willing to pay premiums.”

BPWA is currently expanding into other regional offices beyond the firm’s home office in Newport Beach, CA. The three founding BPWA advisor offices are in Northern California; Scottsdale, AZ; and Southern California. Advisors that have adopted the platform have experienced material success. Eric Howie, Managing Partner of BPWA, notes, “Since I joined BPWA 18 months ago, assets have grown over $100 million. I experienced success when running my own RIA, but BPWA has materially accelerated growth.”

Howie feels that independent advisors who lack scale may want to consider finding a larger entity to join forces with. “I came from a place where I wanted to control everything. I quickly realized that Beacon took over areas of my business I didn’t need or want to have my hands in.” Howie also came to the conclusion that BPWA provides certainty to managing his business equity, given that BPWA has a buy/sell agreement embedded in their operating agreement in case of an unforeseen event or when an affiliated advisor exits the business. Howie notes, “The value of an advisor’s business is in huge jeopardy without a detailed succession or continuity plan. I can now explain to my clients, my family and prospects what happens if something happens to me. Having Beacon Pointe behind me puts minds at ease.”

Acknowledgements

About aRIA

aRIA, the alliance for RIAs, is a think tank study group composed of six elite RIA firms that collectively manage more than $20 billion in client assets, and Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. The group offers insight for advisors considering ways to enhance their firms' enterprise value. Members include Brent Brodeski, CEO of Savant Capital; John Burns, Principal at Exencial Wealth Advisors; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Partners; Matt Cooper, President of Beacon Pointe Advisors; Neal Simon, CEO of Highline Wealth Management; and John Furey, Principal of Advisor Growth Strategies, LLC. The group meets regularly, releasing thought leadership pieces of interest to both independent and wirehouse advisors interested in exploring long-term growth strategies. On the Web at: **www.allianceforrias.com**

About Advisor Growth Strategies

Advisor Growth Strategies, LLC (AGS) is a leading consulting firm serving the wealth management industry. AGS provides customized business management solutions for independent firms seeking to aggressively grow their business and for financial advisors in transition. Our services include strategic planning, recruiting and acquisition programming; compensation design; and succession planning. We serve established independent advisors, large breakaway advisor teams and institutional-level corporations. On the Web at: **www.advisorgrowthllc.com**

About Weitz Funds

Wallace R. Weitz & Company was started in 1983 with about $11 million under management. Over the years, the firm has followed a common-sense formula: own a group of strong businesses with deeply discounted stock prices. By staying true to this philosophy – and sticking to industries it understands – Weitz Funds has been able to pursue solid returns for investors. Today, the firm, a registered investment advisor, manages approximately $4.4 billion for the Weitz Funds, individuals, corporations, pension plans, foundations and endowments. Learn more about Weitz Funds at **www.weitzfunds.com**

This white paper was sponsored by Weitz Funds.

aRIA
Alliance for Registered Investment Advisors