The Value of Supported Independence
A Financial Advisor Valuation Study by Succession Resource Group, Inc. 2015
Succession planning has become a popular topic among small business owners in the United States given the number of baby-boomer small business owners. The financial services industry is no exception to this trend, with an estimated 32% of advisors expected to retire in the next decade and an average advisor age of approximately 49 industry wide and independent reps (see IBD column) and RIAs being slightly older at 53 and 51 respectively (see Advisor Age by Channel, 2Q 2012 below). With advisors over the age of 60 controlling $2.3 trillion in client assets, succession planning has become a top priority by necessity for most firms. As the industry has aged and evolved, a market for buying and selling financial services practices has developed for both traditional/employee channel advisors and independent advisors (including independently owned Registered Investment Advisers and independent Registered Representatives), making succession planning, business valuation, and growth through acquisition an increasingly important part of running a business. Today, both independent and employee advisors have the ability to obtain tremendous value.

As the market for buying and selling financial services businesses has evolved, buyer demand has steadily risen, with buyers far outnumbering sellers today. This demand has led to consistently increasing values received by sellers over the last 10 to 20 years. The average multiple of gross recurring revenue paid for a financial service practice was 2.34 in 2013 and the evolving market is producing a wider range of values paid than ever before, with some practices receiving multiples of recurring revenue as high as 3.50, depending on the terms of the deal and quality of the practice.

The average age of the current advisor population presents a major opportunity for advisors who are interested and prepared to grow their practice through acquisition. The rising trend of growth through acquisition is apparent in the high
The data used in this study comes from the author’s database of financial service transactions, deal information provided by Ameriprise, as well as other industry sources for records of financial service practices that sold for less than $10 million in 2013. For purposes of comparison Ameriprise provided data from all of its franchise sale/purchases from its list of internal franchise sales completed in 2013 which was then refined to eliminate outlier transactions and partial book volume of articles and press releases on industry consolidation each year. The opportunity for rapid growth afforded through consolidation has inspired many broker-dealers and custodians to provide support and resources to their advisors who are looking to buy or sell their practice. Ameriprise Financial Services, Inc. (Ameriprise), for example (the subject of this study), has operated an internal network for buying and selling franchises for more than 15 years. Ameriprise’s commitment to supporting acquisition and succession planning has created one of the most robust internal purchase and sale networks observed in the industry, with more than 160 deals completed in 2013.

About This Study

The purpose of this study is to compare the business values generated from sales of Ameriprise franchise practices to those purchased/sold by advisors from other independently owned and operated firms (herein referred to as the “peer group”) in 2013, to determine whether Ameriprise practices sell for more or less, on average, than those of its peers. This study also analyzes and compares the payment terms of these deals (including down payment, repayment period, and contingent financing), and suggests possible causes for the observed higher or lower values.

Methodology

The data used in this study comes from the author’s database of financial service transactions, deal information provided by Ameriprise, as well as other industry sources for records of financial service practices that sold for less than...
transactions, leaving a total of 73 franchise sale/purchases for this study. The Ameriprise sales data was compared to Succession Resource Group’s (SRG) proprietary database of financial services practice sales from the same time period, as well as transactions completed in 2013 provided by other broker-dealers and custodians, and published 2013 data on deals and values in the financial services industry from other credible third-parties (collectively referred to herein as the “SRG deal database”).

All transaction data used in this study was gathered from deals completed in 2013 and analyzed during the first two quarters of 2014. Every deal used in this study was for the sale of an entire business between two willing third-parties, and does not include any partial-book sales or internal sales to partners/successors.

The following terms are used throughout this study and are defined as follows:

• “Gross revenue” refers to the gross revenue paid to an advisor, less any broker-dealer or custodian fees. This is most important in interpreting the multiple of gross revenue referenced throughout this study versus the rarely used multiple of gross dealer concession (GDC).

• A “multiple of gross revenue” is the ratio resulting from the sale price divided by the gross revenue. Multiples of recurring revenue and non-recurring revenue are similar, but provide a specific ratio of sales price to recurring revenue and sales price to non-recurring revenue. Higher multiples of revenue are positive for a seller, indicating for example, that for every dollar of revenue sold, the seller received two dollars in sales price.

• A “claw-back” is a clause used when financing the deal, allowing a buyer to adjust the value of the business based on the actual retention of revenue or assets purchased at some point after closing (typically after the first year following the sale).

Market Status – 2013 Transaction Comparison

For comparative purposes, the value of financial service firms (with less than $5 million in annual revenue) typically are represented in the form of a gross revenue multiple (representing the sale price as a ratio of gross revenue) or multiples of gross recurring and non-recurring revenue, as opposed to multiples of earnings*. Based on the SRG deal database used for this study, the average gross revenue multiple observed for the peer group was 1.85, slightly lower than Ameriprise deals at 2.17 (as shown in Figure 1).

Further analyzing the SRG deal database, we also separated the sale price ratios into “recurring” multiples (referring to revenue from fees, trails, 12b-1s, retainer work, and insurance renewals) and “non-recurring” multiples (all one-time commissions or hourly revenue).

Comparing the gross revenue multiples observed in the peer group to the Ameriprise franchise sales, SRG found that on average, the Ameriprise franchises sold for a 17.50% premium over the peer group. A similar premium was observed looking at the recurring multiple, where the peer group had an average recurring multiple of 6.56% lower than Ameriprise’s average recurring multiple.
Analyzing the two categories of revenue separately, we found the recurring gross multiples ranged from about 1.80 to 3.5 in 2013 with an average of 2.34, and non-recurring revenue ranged from 0.50 to 1.20 with an average of 1.01 for the transactions in the SRG deal database. These averages are in line with historical patterns observed by the authors of this study, as well as other credible industry sources that publish comparable data. The data on Ameriprise franchise sales was slightly higher at this level of analysis, with an average recurring multiple of 2.49 and the same non-recurring multiple as shown in Figure 2.

Another noteworthy observation in comparing the two data sets was on the value of rural versus urban areas.
Before drawing any definitive conclusions as to the value of Ameriprise practices in comparison to peer group practice values, this study also reviewed the payment terms from buyer to seller in the sale of a financial services business. This additional layer of analysis is necessary because payment terms vary significantly in the industry, largely due to the lack of bank financing historically available for these types of transactions.

Payment terms for the Ameriprise transactions and its peer group were similar. Ameriprise deals had a lower average down payment, but Ameriprise sellers were paid faster than their peer group (see Figure 3). The Ameriprise deals also had 12.5% less contingent financing (indicating an overall greater perceived value by sellers), with only 68.7% of Ameriprise deals involving a claw-back or adjustment clause. Deals with greater amounts

**Figure 2: Average Recurring/Non-Recurring Revenue Multiples**

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<tr>
<td>Industry Average:</td>
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"Comparing the gross revenue multiples observed in the peer group... the Ameriprise franchises sold for a 17.50% premium"

**Deal Terms**

urban practices. The authors of this study have historically observed a strong positive correlation between rural practices and lower values given the reduced market demand, meaning that rural practices have been observed to receive lower values on average. However, upon review of rural Ameriprise franchises, we found they sold for 7.8% more than even their urban peer group.
of contingent financing correlate positively to higher values paid (due to the premium paid by a buyer for the additional risk borne by the seller financing the transaction). Thus, the fact that Ameriprise franchises sold for 17.50% more than their peer group, with less contingent financing, is a prime indicator of the overall greater value received by Ameriprise sellers than that of their peer group. The average payment terms for 2013 deals is illustrated in Figure 3, which compares the database of Ameriprise franchise sales to those of its peer group.

Based on their analysis of the data, and the combination of previously stated facts, as well as those summarized below, SRG and its authors have concluded that Ameriprise franchises sell for a premium over their peer group, with slightly lower initial cash down payments but an overall faster repayment of the purchase price.

1. **Ameriprise practices received 17.50% greater value** than their peers comparing gross revenue multiples;
2. The **peer group of sellers had to wait 5.98% longer** to receive their value than Ameriprise sellers who received their payments in less than five years;
3. Ameriprise deals had **12.5% more of the sale price guaranteed**, with the peer group having nearly 80% of its deals using contingent financing.

![Figure 3: Deal Terms (2013)](image-url)
Key Value Drivers and Detractors

There are numerous possible explanations as to why the Ameriprise franchises, on average, sold for more than their peer group and no specific conclusions may be inferred from the data used in this study. However, it is the opinion of the authors, based on more than three decades of experience facilitating the purchase and sale of financial services practices, that the following factors have shown to contribute to practice value, and are possible explanations for the premium Ameriprise franchises observed relative to its peer group:

• Internally Supported and Robust Network: SRG and its executive team works with, and has worked with, many broker-dealers and custodians of varying size and type. Reviewing the SRG deal database, there appeared to be a pattern of greater values for the few firms like Ameriprise that have and support a robust internal market for buying and selling practices.

• Technology and Reporting: Buyers have consistently shown a tendency to offer greater values and use less contingent financing when comprehensive and easily interpreted data on the practice for sale is available through common software like a CRM system – an area where Ameriprise appears to excel relative to its peer group.

• Transferability and Retention Rates: Values received by selling advisors are largely a function of risk. Practices that have a greater than average perceived client attrition risk by the buyer will receive lower values and/or more contingent financing. Client attrition risk is a function of the strength of the relationship between client and advisor, as well as the amount of continuity during a transition. Ameriprise’s internal track record of successful purchase and sales (based on feedback from Ameriprise advisors interviewed for this study), combined with the company’s national brand, consistency of systems, reporting and processes from one franchise to the next, in addition to a local advisor’s presence, have created a market where there is less perceived risk by buyers.
Conclusion

Many advisors today consider their practice to be their most valuable asset, now exceeding their retirement portfolios, personal assets, and even real estate in value. This new trend of understanding and managing the practice’s value is prompting advisors to build better practices that receive a premium at sale. Advisors also benefit from advanced succession planning, allowing advisory practices to serve their trusted client base past the career of the owner. Ameriprise was one of the first in the industry to recognize the positive results of partnering with their advisors to build the value of their franchises. This effort has produced measurable results – based on the data analyzed in this study, Ameriprise franchises sold on average in 2013 for a 17.50% premium relative to their non-Ameriprise peer group.

The market for buying and selling a financial services practice has changed over the last two decades. Where an advisor was rarely able to sell his or her business 20 years ago on a revenue sharing arrangement, advisors today are factoring the value of their practice into their own personal retirement plans. With advanced planning, advisors can now have the ability to track and influence the value of their business. Advisors considering the sale of their business in the next decade should focus on key value drivers, like shifting to a recurring revenue model, focusing on institutionalizing business/client service processes, building an efficient and profitable business, and partnering with a broker-dealer that can/will help find an ideal successor and obtain a premium for the business. With almost 1/3 of advisors expected to be retiring in the next decade, it is reasonable to expect greater disparity in values, with significant premiums paid for the most attractive and well-positioned practices for sale.
Background of the Author

Succession Resource Group, Inc. (SRG) is a boutique consulting firm based in Portland, Oregon that specializes in business valuation, mergers, acquisition and succession planning for financial advisors. Founded and led by David Grau Jr., MBA, SRG’s executive team has more than 30 years of combined experience providing acquisition and succession planning solutions to professional service firms nationwide. The firm’s executive team has assisted hundreds of financial advisors buy, merge, and sell their business, as well as having valued more than 3,000 financial services firms.

1 The Cerulli Report: Advisor Metrics 2013: Understanding and Addressing a More Sophisticated Population
2 http://business.time.com/2013/07/18/close-to-retiring-uh-oh-so-is-your-financial-adviser/
3 FP Transitions published data from 2013 indicates that the multiple for gross recurring revenue observed in their database of transactions was 2.36.