



Financial Advisory Practice Calculation

Prepared Exclusively For:

Sample Advisor

Friday, February 3, 2017

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 ratio of recurring and non-recurring revenue. Recurring revenue multiples increase as the ratio of recurring to non-recurring revenue increases. Non-recurring revenue multiples are based on how long it takes to access or re-position the assets that are currently not generating recurring revenue. These, and other, ratios are used to determine comparisons with current market prices.

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 January 31, 2017:

\$3,244,057

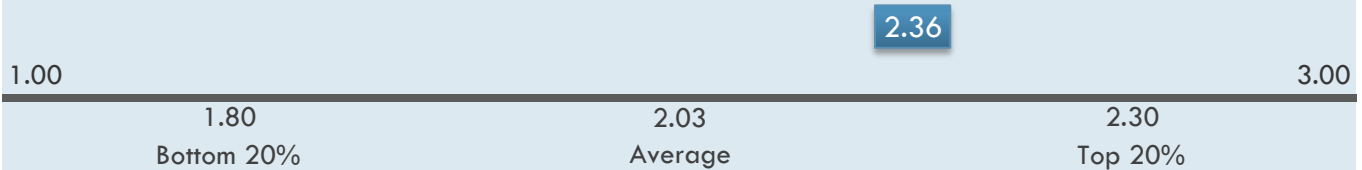


Todd Doherty

Mergers and Acquisitions Specialist
Key Management Group

Multiple of Revenue (GDC) Comparisons

Your Placement Within the Range of Valuations



Opportunities for Improvement:

You are in the Top 20 Percentile

*Our Fair Market Value calculation is based on a 5-year earnings model

Calculation Dashboard

Date **2/3/2017**
 Advisor **Sample Advisor**


Assets Under Management

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

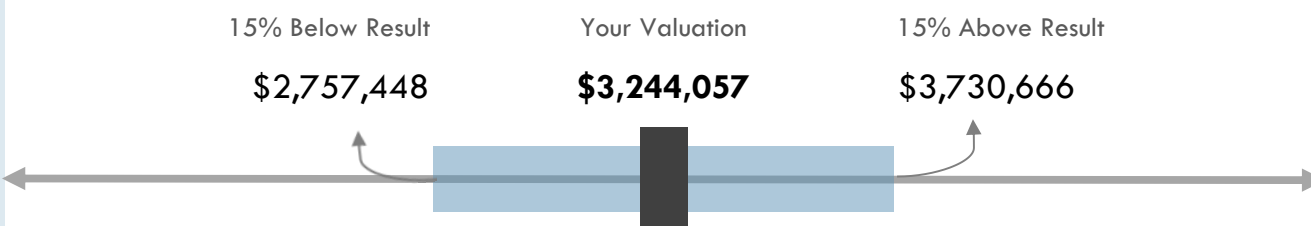
\$183,000,000

Total T-12 Revenue (GDC)	Payout %	Post Payout Revenue/GDC
\$1,377,000	91%	\$1,253,070
Transaction Based Revenue %	Recurring Revenue %	Asset Velocity
4%	96%	0.75
Transaction Based Revenue	Recurring Revenue	Value Impact of Asset Velocity
\$50,123	\$1,202,947	Positive

Fair Market Value

Value Based On:	Reference Value	Average Value
5 Year Earnings Model		\$3,244,057
Transaction Revenue Multiple	Recurring Revenue Multiple	Market Based Value
1.14	2.90	\$3,539,672
Growth Rate	Discount Rate	Earnings Based Value
6.32%	17.00%	\$2,948,442

Range of Price



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 2/3/2017
Practice Sample Advisor

OPTIONS	#1	#2
Starting Net Revenue (GDC)	\$1,253,070	\$1,253,070
Growth Rate	6.32%	6.32%
Starting Expenses %	38.11%	38.11%
Starting Expenses	\$477,579	\$477,579
Growth Rate	4.00%	4.00%
Sale Price	\$3,244,057	\$3,244,057
Down Payment %	20.00%	85.00%
Down Payment \$	\$648,811	\$2,757,448
Balance Due	\$2,595,246	\$486,609
Interest Rate	5.00%	4.00%
Payments per year	12	12
Down Payment Financed	Yes	Yes
Down Payment Note	\$648,811	\$2,757,448
Term Years	1	10
Interest Rate	2.00%	5.75%
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 the "Fair Market Value"

Option #2
Illustrates the "Bank Financed Price"

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.

OPTION #1		5 Years			Debt Service	
Year	Revenue	Growth	Expenses	Growth	Down Payment Debt Service	Acquisition Debt Service
0	\$1,253,070		\$477,579			
1	\$1,332,264	6.32%	\$496,682	4.00%	\$655,862	0
2	\$1,416,463	6.32%	\$516,549	4.00%	0	\$587,706
3	\$1,505,984	6.32%	\$537,211	4.00%	0	\$587,706
4	\$1,601,162	6.32%	\$558,699	4.00%	0	\$587,706
5	\$1,702,355	6.32%	\$581,047	4.00%	0	\$587,706
6	\$1,809,944	6.32%	\$604,289	4.00%	0	\$587,706
7	\$1,924,332	6.32%	\$628,461	4.00%	0	0
8	\$2,045,950	6.32%	\$653,599	4.00%	0	0
9	\$2,175,254	6.32%	\$679,743	4.00%	0	0
10	\$2,312,730	6.32%	\$706,933	4.00%	0	0
TOTALS:					\$655,862	\$2,938,529

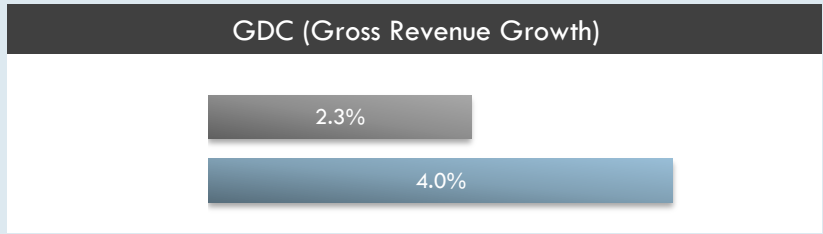
Owner Retained Earnings Investment Metrics			
Net to Buyer	%	Hurdle Rate	Weighted ROI
\$179,721	13.49%	17.00%	-3.51%
\$312,208	22.04%	17.00%	5.04%
\$381,067	25.30%	17.00%	8.30%
\$454,757	28.40%	17.00%	11.40%
\$533,602	31.34%	17.00%	14.34%
\$617,949	34.14%	17.00%	17.14%
\$1,295,872	67.34%	17.00%	50.34%
\$1,392,351	68.05%	17.00%	51.05%
\$1,495,511	68.75%	17.00%	51.75%
\$1,605,797	69.43%	17.00%	52.43%
\$8,268,835			

OPTION #2		5 Years			Debt Service	
*Down Payment Bank Financed						
Year	Revenue	Growth	Expenses	Growth	Down Payment Debt Service	Acquisition Debt Service
0	\$1,253,070		\$477,579			
1	\$1,332,264	6.32%	\$496,682	4.00%	\$363,220	0
2	\$1,416,463	6.32%	\$516,549	4.00%	\$363,220	\$107,540
3	\$1,505,984	6.32%	\$537,211	4.00%	\$363,220	\$107,540
4	\$1,601,162	6.32%	\$558,699	4.00%	\$363,220	\$107,540
5	\$1,702,355	6.32%	\$581,047	4.00%	\$363,220	\$107,540
6	\$1,809,944	6.32%	\$604,289	4.00%	\$363,220	\$107,540
7	\$1,924,332	6.32%	\$628,461	4.00%	\$363,220	0
8	\$2,045,950	6.32%	\$653,599	4.00%	\$363,220	0
9	\$2,175,254	6.32%	\$679,743	4.00%	\$363,220	0
10	\$2,312,730	6.32%	\$706,933	4.00%	\$363,220	0
TOTALS:					\$3,632,196	\$537,698

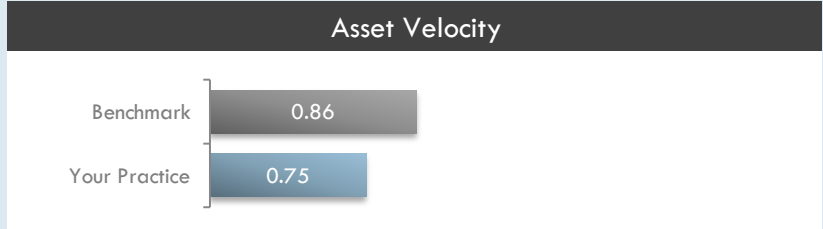
Owner Retained Earnings Investment Metrics			
Net to Buyer	%	Hurdle Rate	Weighted ROI
\$472,363	35.46%	17.00%	18.46%
\$429,155	30.30%	17.00%	13.30%
\$498,013	33.07%	17.00%	16.07%
\$571,703	35.71%	17.00%	18.71%
\$650,549	38.21%	17.00%	21.21%
\$734,896	40.60%	17.00%	23.60%
\$932,652	48.47%	17.00%	31.47%
\$1,029,131	50.30%	17.00%	33.30%
\$1,132,292	52.05%	17.00%	35.05%
\$1,242,578	53.73%	17.00%	36.73%
\$7,693,332			

Benchmark Analysis

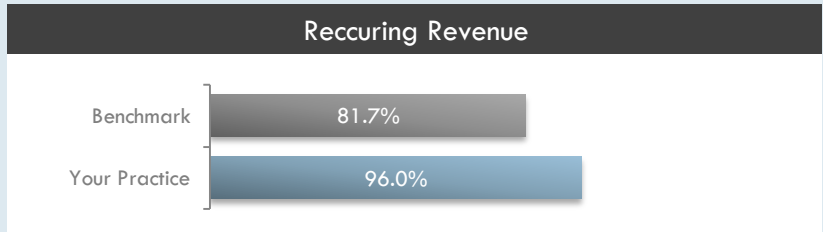
GDC (Gross Revenue Growth)	
Benchmark	Your Practice
2.3%	4.0%
Surpassing ●	



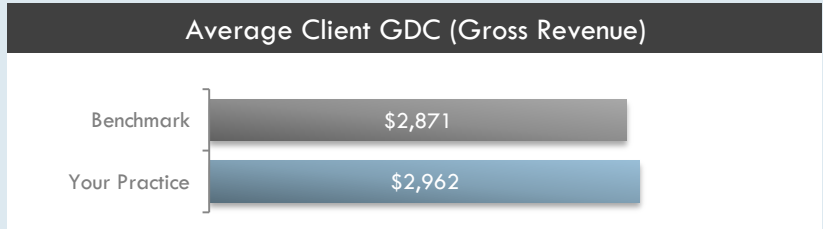
Asset Velocity	
Benchmark	Your Practice
0.86	0.75
On Par ●	



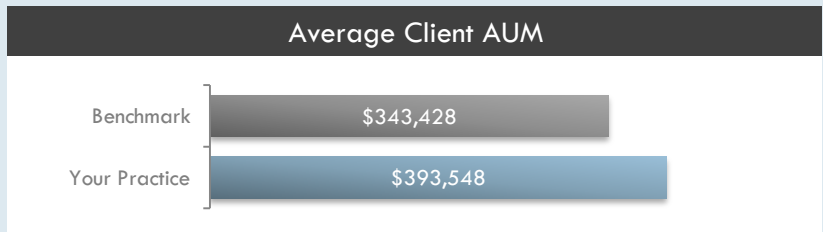
Recurring Revenue	
Benchmark	Your Practice
81.7%	96.0%
Surpassing ●	



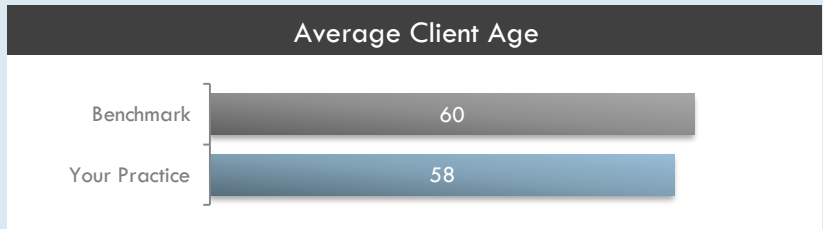
Average Client GDC (Gross Revenue)	
Benchmark	Your Practice
\$2,871	\$2,962
On Par ●	



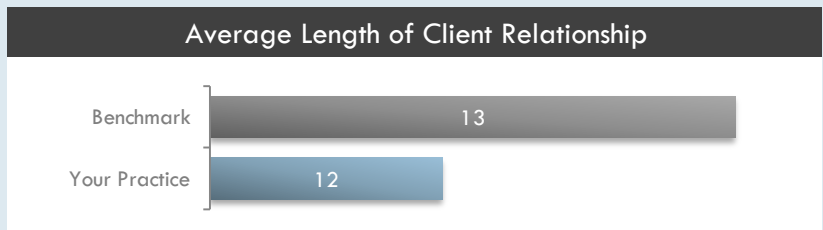
Average Client AUM	
Benchmark	Your Practice
\$343,428	\$393,548
Surpassing ●	



Average Client Age	
Benchmark	Your Practice
60	58
On Par ●	



Average Length of Client Relationship	
Benchmark	Your Practice
13	12
On Par ●	



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

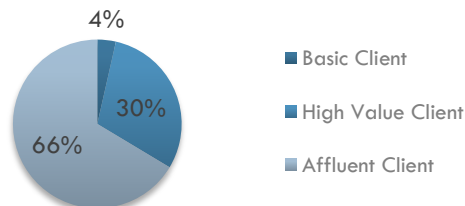
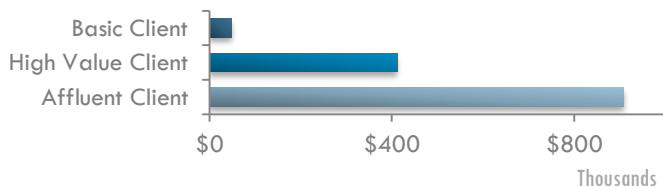
Segmentation Report

	Basic Client	High Value Client	Affluent Client
Assets Under Management	\$0 - 99K	\$100 - \$499K	\$500K+
Percent of Client Base	37%	37%	26%

T-12 Revenue (GDC)

Total	\$48,613	\$411,424	\$909,000
% of Practice	3.55%	30.05%	66.40%

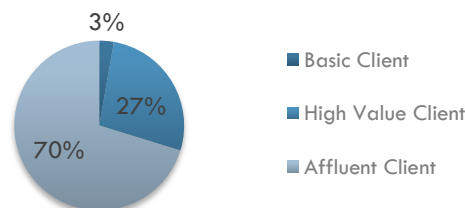
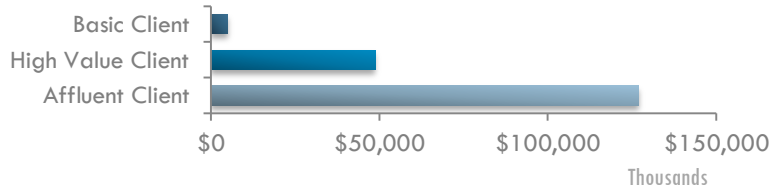
T-12 Revenue (GDC)



Assets Under Management

Total	\$5,026,169	\$48,728,804	\$126,896,880
% of Practice	2.78%	26.97%	70.24%

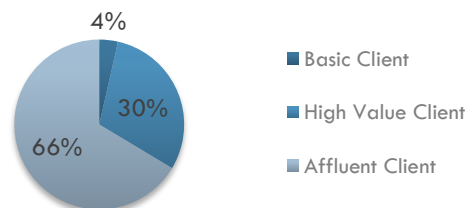
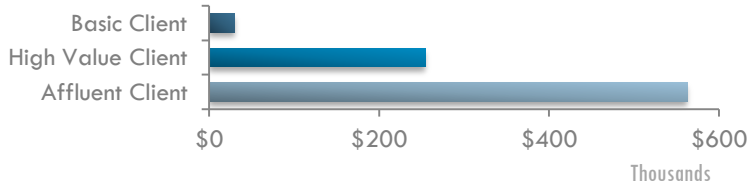
Assets Under Management



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

Total	\$30,085	\$254,619	\$562,556
% of Practice	3.55%	30.05%	66.40%

Operating Profit for Group



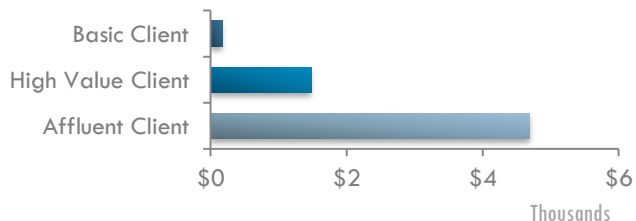
Average Operating Profit (before Owners Comp)

Total	\$174	\$1,480	\$4,688
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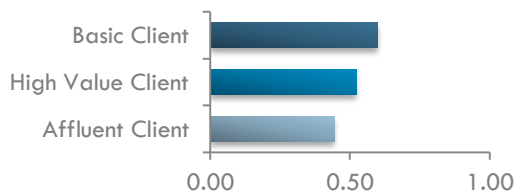
Average Return on Assets (Profit Weighted)

Total	0.60	0.52	0.44
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Average Operating Profit



Average Return on Assets

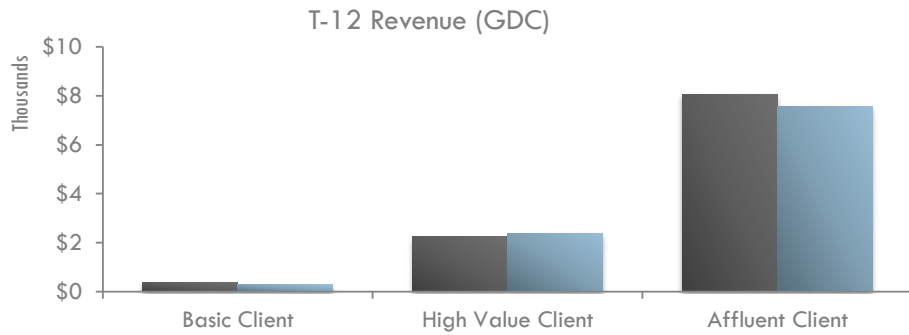


Segmentation Vs. Benchmark Report

Assets Under Management	Basic Client \$0 - 99K	High Value Client \$100 - \$499K	Affluent Client \$500K+
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T-12 Revenue (GDC)

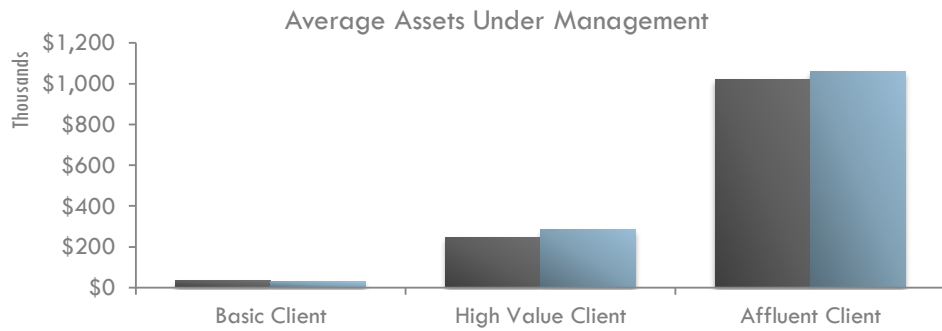
Benchmark	\$384	\$2,235	\$8,061
Your Practice	\$281	\$2,392	\$7,575



T-12 Revenue (GDC) On Par ●

Average AUM (Assets under Management)

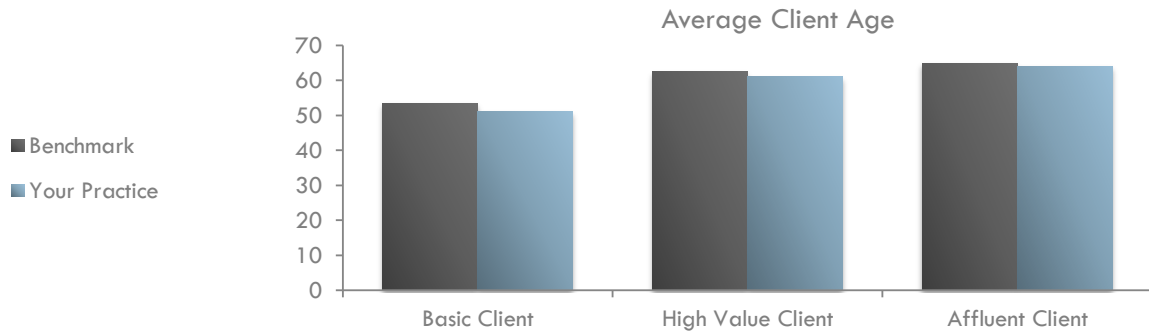
Benchmark	\$33,725	\$245,211	\$1,018,735
Your Practice	\$29,053	\$283,307	\$1,057,474



Average AUM (Assets under Management) On Par ●

Average Client Age

Benchmark	53	62	65
Your Practice	51	61	64



Average Client Age On Par ●

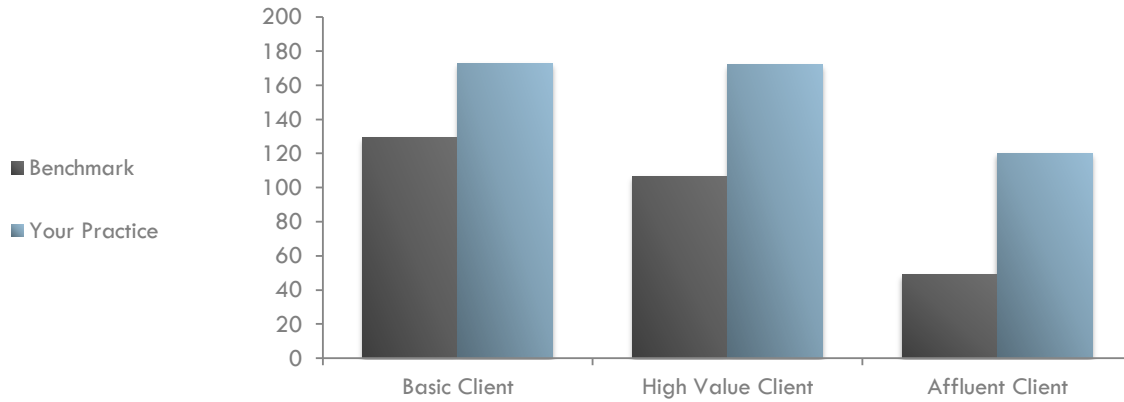
Segmentation Vs. Benchmark Report

Assets Under Management	Basic Client \$0 - 99K	High Value Client \$100 - \$499K	Affluent Client \$500K+
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Client Segmentation (Total Number of Clients)

Benchmark	129	107	49
% Of Total Clients	45%	38%	17%
Your Practice	173	172	120
% Of Total Clients	37%	37%	26%

Client Segmentation (Total Number of Clients)

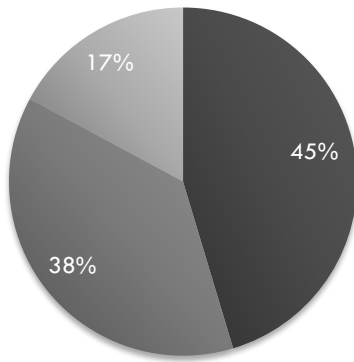


Client Segmentation (Total Number of Clients)

Surpassing

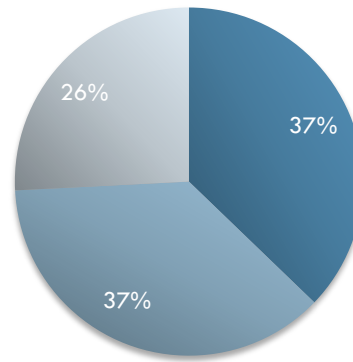


Benchmark



■ Basic Client ■ High Value Client ■ Affluent Client

Your Practice



■ Basic Client ■ High Value Client ■ Affluent Client

Client Segmentation (As Percentage)

Surpassing



Practice Efficiency

Financial Efficiency

\$1m to \$1.9m	Benchmark		Your Practice		Comparison	
Broker/Dealer / Other	Other		Sample BD		Revenue	
Size	\$1m to \$1.9m		\$1m to \$1.9m		Variance	
Revenue	\$1,407,758		\$1,251,552		-\$156,206	
Total Operating Expenses (Not Including Owner's Comp)	\$726,788	51.63%	\$477,000	38.11%	-13.51%	\$169,143
Total Overhead Expenses (Including Owner's Comp Benchmark)	\$1,043,428	74.12%	\$741,408	59.24%	-14.88%	\$186,240
Operating Profit	\$364,330	25.88%	\$510,144	40.76%	14.88%	\$186,240

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

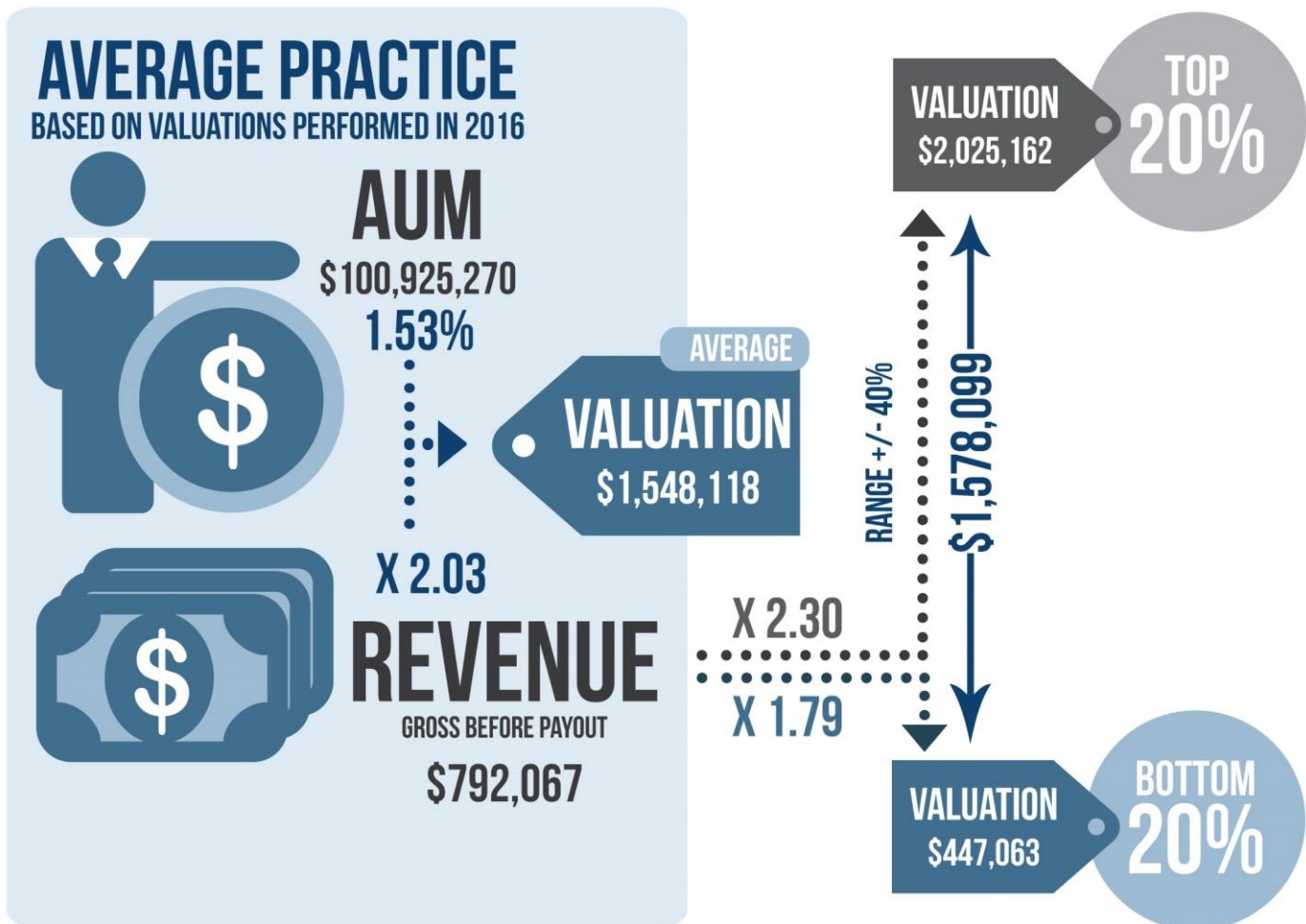
Practice Structure Efficiency

	Benchmark	Your Practice	Comparison
Active Clients/Professional & Staff	61	93	32
Active Clients/Professional	133	233	100
AUM/Professional & Staff	\$27,248,700	\$36,542,584	\$9,293,884
AUM/Professional	\$59,038,850	\$91,356,461	\$32,317,610
Revenue/Professional & Staff	\$198,530	\$250,310	\$51,780
Revenue/Professional	\$430,148	\$625,776	\$195,628

Client Group Efficiency

	Benchmark	Your Practice	Comparison
AUM/Active Client	\$445,343	\$392,931	-\$52,412
Revenue/Active Client	\$3,245	\$2,692	-\$553
Direct Expense/Active Client	\$1,088	\$741	-\$348
Overhead (Compensation)/Active Client	\$639	\$258	-\$381
Overhead (Non-Compensation)/Active Client	\$678	\$596	-\$82
Direct & Overhead Expense/Active Client	\$2,405	\$1,594	-\$811
Operating Profit/Active Client	\$840	\$1,097	\$257

Range of Value for Financial Planning Practices



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

At Key Management Group, we offer 3 types of Practice Assessment to help advisors better understand how their businesses are performing:

Quick Online Assessment (Free)	Provides a very high-level overview of the six key areas of practice management. Includes a complimentary 30-minute review.	Free
✓ Business Valuation (This Document)	Using proven methodology, we review key metrics to determine the Fair Market Value of your practice.	\$1,195*
In-Depth Practice Assessment	Our team completes an extensive 2-3 week review of your systems and processes to identify efficiencies and untapped potential.	\$1,700 \$2,495**

*\$400 Discount for Partner Firms

**\$795 Discount for those who completed a Valuation within the past year

Both the Quick Online Assessment and the In-Depth Practice Assessment do a holistic review of your practice. We have broken down the key financial advisor tasks into the Six Key Areas of Practice Management.

Having worked with hundreds of financial planning practices, we find that advisors tend to gravitate toward activities in which they feel the comfortable, while neglecting the other critically important areas of their practice. Often times, small changes can make a big difference in efficiency and productivity. We help you identify the areas in which your practice is very strong, and we also look for the areas that need further attention.



To Complete the Quick Online Assessment

Visit www.keymanagementgrp.com

This review will ask you questions about your practice. It takes approximately 15 minutes to complete, and you will be contacted by an Executive Coach with your results. The entire process is complimentary.



To Complete an In-Depth Practice Assessment

Call us at 1-888-848-3349

This can be purchased as an add-on this to valuation for \$1,700. We will provide the results from your Valuation to our Practice Management department. They will then conduct an in-depth review of your practice over a 2-3 week period. This will consist of both online data collection and interviews with you and your staff members. The purpose of the In-Depth Analysis is to provide you with specific areas where your team can improve their efficiencies and/or implement systems that make your practice more productive.



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.

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- 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.
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- 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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