



ASSETMARK™

M&A Essentials

Understanding and Improving Your Value

M&A Essentials

Welcome



James Mackiewicz, CWS®

*Vice President,
Practice Management Consultant*

James Mackiewicz has a long history of practice management success. Before joining AssetMark, he worked with the nation's largest independent practice management firm to help advisors streamline operations, sharpen their investment management process, and enhance their human capital. James coaches advisors in developing messaging that tells the story of why their best clients work with them so that they can attract prospects and build their book of business.



ASSETMARK

MORE THAN

20

YEARS OF
EXPERIENCE

Asset Management Excellence

Innovative approach
to risk management

An **open-design**
platform to create
custom portfolios

Professionally managed
pre-built Guided Portfolios

MORE THAN

7,000

ADVISOR
RELATIONSHIPS

Thought Leadership

Business planning **tools**
and **resources**

Interactive peer-to-peer
workshops

Industry leading
research

APPROXIMATELY

\$30M

INVESTED IN
TECHNOLOGY

Over the past three years

Compelling Technology

Partnerships with
leading technology
providers

On-demand reporting

Client account opening
and maintenance

APPROXIMATELY

\$37B

ASSETS ON PLATFORM

As of 04/30/2017

Deep Relationships

Highly tenured
specialists dedicated to
supporting your
practice

Nationwide workshops,
events and **webinars**

Driving Growth: M&A Essentials

Webinar series

Aug 10th

Successfully Preparing for a Merger or Acquisition

- Watch a replay by visiting AssetMark.com/BAT

Oct 3rd

Understanding and Improving Your Value

- Review a simple business valuation methodology
- Learn about different financing options and determine factors that impact the value of your firm
- Explore why a complete Business Assessment helps you get a more advanced business value estimate

Dec 5th

Planning for the Future

- Explore industry stats on business succession planning and understand the risks of not having a plan in place
- Learn the key elements of a succession plan and the different types
- Review common deal structures and options

Outcomes

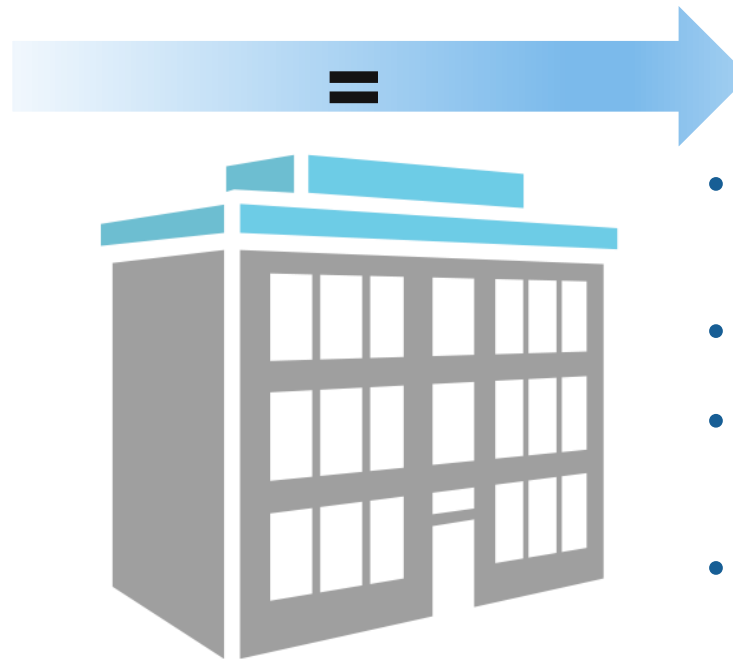
- Understand what factors drive value in your practice
- Learn different practice valuation methodologies
- Discover ways to improve the value of your business

Building Value in Your Practice

Take advantage of time

Today: Focus on efficiency and effectiveness

- Define your services
- Create a clear value proposition
- Document business processes
- Track business metrics
- Establish stable revenue models
- Develop talent



Tomorrow: Capitalize on increased value

- More efficient and effective = lower risk and increased value
- Increased income/revenue/cash flow
- More attractive as a buyer or seller or to a successor advisor
- Better retention and stability through a transition process

What drives value?



- | | |
|---|--|
| • People driven processes | • Process driven practice |
| • No financial metric tracking | • Regularly tracked financial metrics |
| • Aging Client Base / Distribution | • Most clients in accumulation phase |
| • Lots of commission based business | • Fee based business |
| • No clearly defined value proposition | • Clear and documented value proposition |
| • No formal marketing, branding or referral plans | • Well defined brand and marketing plan |
| • Non-transferable proprietary assets | • Transferable asset management platform |
| • History of low growth | • High growth rate |

Using M&A to drive growth

Benefits:

- Rapidly grow your business
- Create scale
- Expand your offerings
- Secure new talent
- Access new markets
- Expand your network

Challenges:

- Serving many new clients
- Short-term Capacity
- Geographic challenges
- Technology integration
- Increased cost short-term

Valuation vs. Price

Various Methods Used to Estimate 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• DOL effect

Financing Options



Seller



Cash

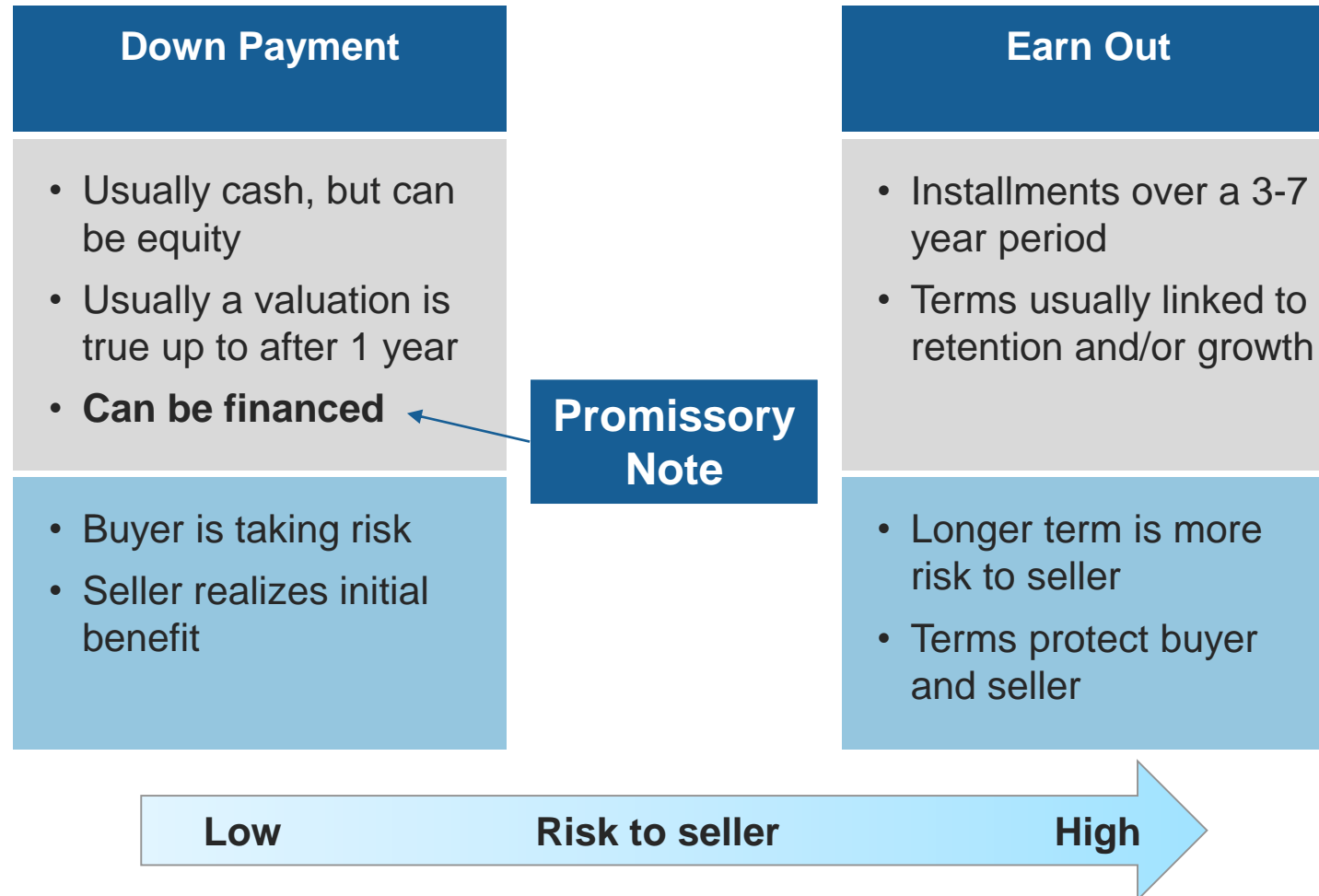


Broker Dealer



Bank

Build the structure of the purchase price



Structure Will Affect Valuation

Deal Structure	Valuation Matrix		
	Years: 1	Years: 2	Years: 3
All Cash	\$623,000		
Average Structure		\$958,000	\$1,131,000
All Contingent		\$1,141,000	\$1,160,000

Structure of the purchase price

Cash Purchase Price

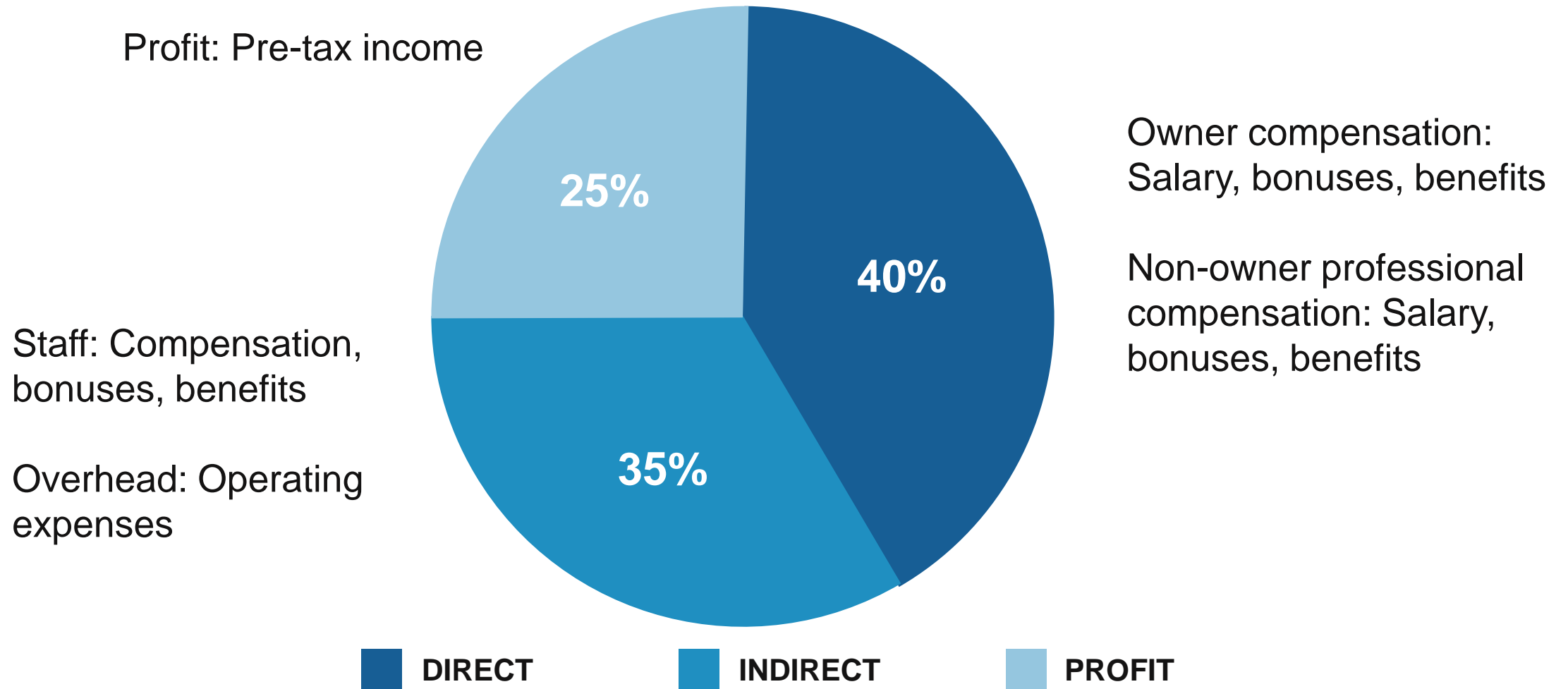
- Fixed amount
- Formula tied to AUM, market movement, additions / withdrawals

Contingent Purchase Price

- Percentage of total value
- Criteria for satisfying the contingency
- Helps to ensure there is a historical level of working capital in the business immediately following closing

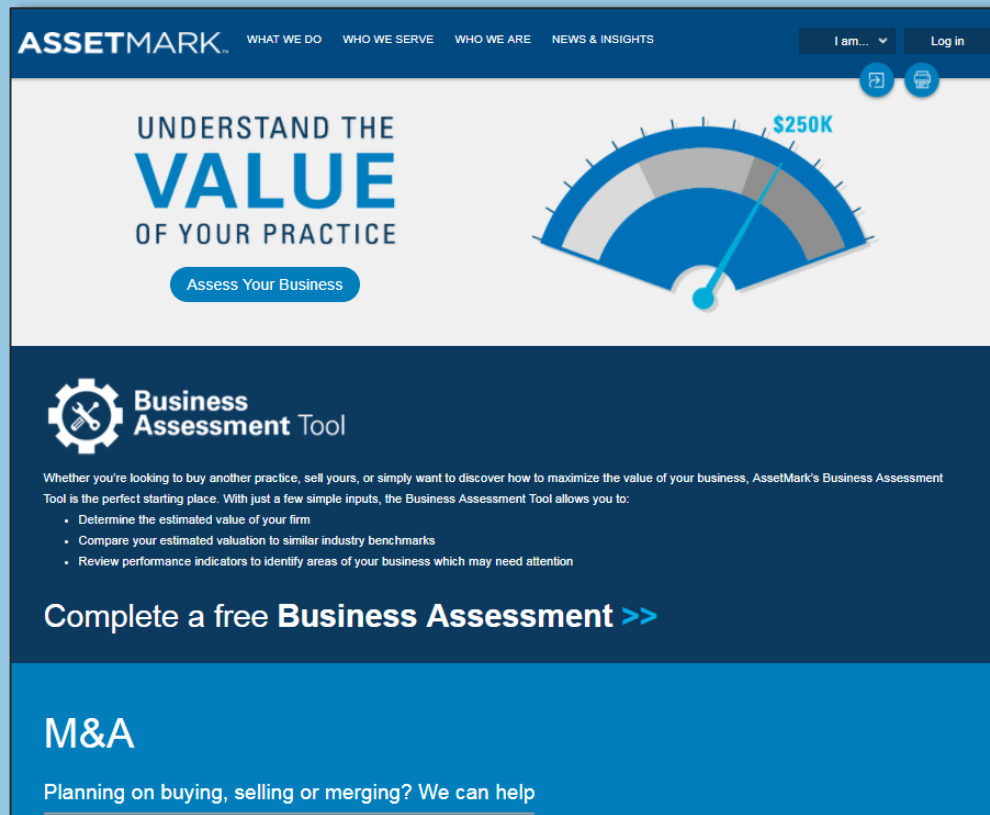
Improving Your Value

Economic model



Assess your business

- Whether you are buying, selling, or merging the first step in preparing your practice is conducting an in-depth business assessment



The screenshot shows the AssetMark website's Business Assessment Tool page. The top navigation bar includes the AssetMark logo, links for 'WHAT WE DO', 'WHO WE SERVE', 'WHO WE ARE', and 'NEWS & INSIGHTS', along with a user dropdown menu and a 'Log in' button. The main heading reads 'UNDERSTAND THE VALUE OF YOUR PRACTICE' with a sub-button 'Assess Your Business'. To the right is a gauge graphic with a needle pointing to '\$250K'. Below this is a section titled 'Business Assessment Tool' with a gear icon. The text explains that the tool is for determining business value, comparing it to benchmarks, and identifying areas for improvement. A large blue button at the bottom says 'Complete a free Business Assessment >>'. At the very bottom, there is a section for 'M&A' with the text 'Planning on buying, selling or merging? We can help'.

Use our free Business Assessment Tool to:

- **Discover** the estimated value of your business
- **Identify** areas of strength
- **Evaluate opportunities** for improvement
- **Determine priorities** for implementation

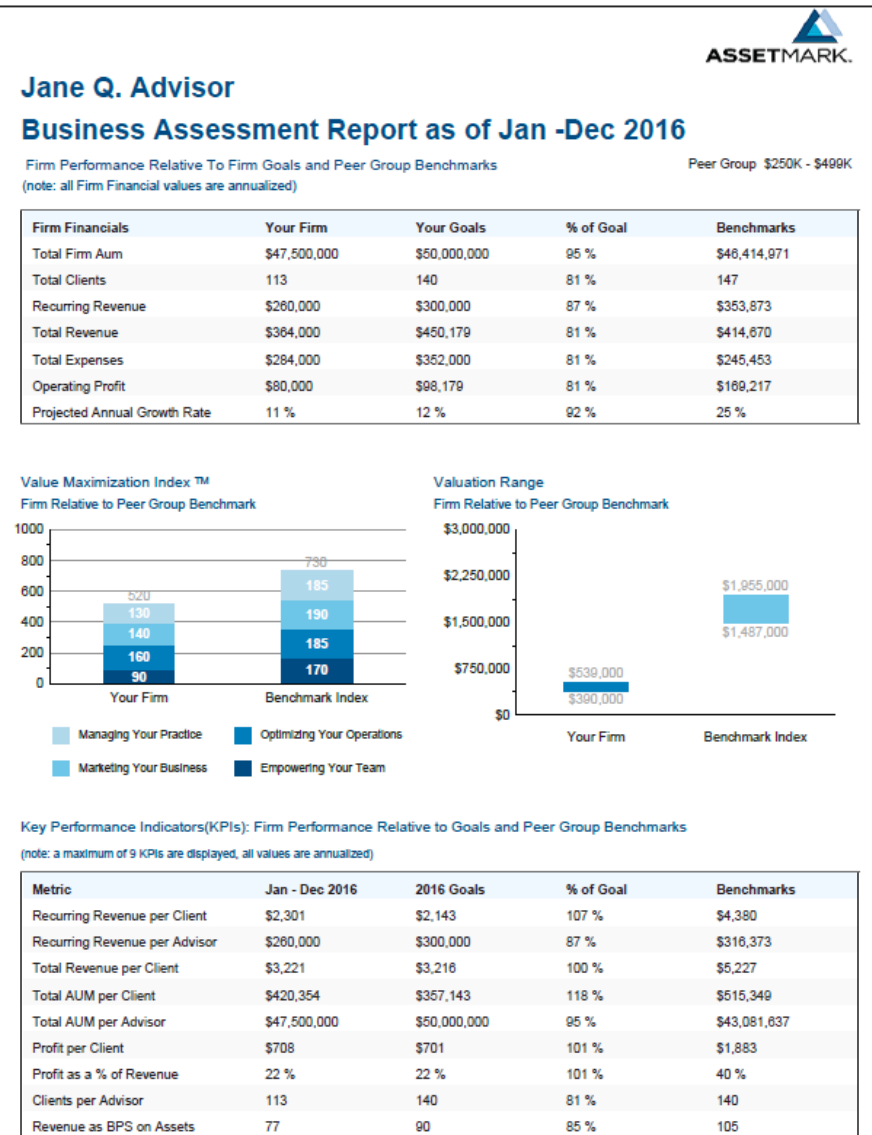
Visit Assetmark.com/BAT to start today

Using your assessment to improve your value

Firm Financial Performance

Value Maximization Index & Valuation Range

Key Performance Indicators



Interpreting results: a case study

Firm Financials	Your Firm	Goals	% of Goal	Benchmarks
Total revenue	\$364K	\$440K	83%	\$391K
Operating profit	\$80K	\$100K	80%	\$98K
Proj. Annual Growth Rate	11%	12%	92%	24%
Revenue as BPS on Assets	77	88	87%	108
Revenue per client	\$3,221	\$3,826	84%	\$4,913
Valuation range	\$400-529K	--	--	\$834K - \$1M
Results		Opportunity		
<ul style="list-style-type: none"> • Low operating profit & growth rate drive lower valuation • Revenue per client and fees below benchmark and goals 		<ul style="list-style-type: none"> • Focus on revenue growth <ul style="list-style-type: none"> – Opportunity & fee analysis – Reduce expenses • Define ideal client and focus marketing efforts 		

Case Study

Case Study

Year	Revenue	Branch Payout	Net to Branch	Earnout %	Net to Seller	Gross to Buyer	Staff	Net to Buyer
1	\$300,000	77%	\$231,000	70%	\$161,700	\$69,300	\$40,000	\$29,300
2	\$300,000	77%	\$231,000	60%	\$138,600	\$92,400	\$42,000	\$50,400
3	\$300,000	77%	\$231,000	50%	\$115,500	\$115,500	\$44,100	\$71,400
4	\$300,000	77%	\$231,000	40%	\$92,400	\$138,600	\$46,305	\$92,295
5	\$300,000	77%	\$231,000	30%	\$69,300	\$161,700	\$48,620	\$113,080
Totals	\$1,500,000		\$1,155,000		\$577,500	\$577,500	\$221,025	\$356,475

Next webinar: Continuity & Succession Planning

Tuesday, December 5, 4:00 pm ET | 1:00 pm PT

Speaker: Dana Marino, Vice President, Director of Practice Management

- Explore industry stats on business succession planning and understand the risks of not having a plan in place
- Learn the key elements of a succession plan and the different types
- Review common deal structures and options

Register by visiting AssetMark.com/BAT

Q&A