



## Client XYZ

### BEFORE

XYZ was set up as an LLC with six owners based on production. The firm's GDC was \$2.1 million/year. Approximately 70% of XYZ's revenue was coming from commission sales or TAMPs and the remaining 30% from planning.

Prior to working with FocusPoint, this firm had six advisors and a staff of eleven supporting both the advisors and the RIA.

The RIA had roughly \$280 million in assets, broken out as follows:

- 1) ~ \$80 million in TAMPs
- 2) ~ \$60 million in B and C shares
- 3) ~ \$50 million in A shares
- 4) ~ \$50 million in annuities
- 5) ~ \$40 million in REITs

### THE ISSUES

XYZ contacted FocusPoint because of three main issues:

- 1) They realized as a company that they did not have a common message or way of working with clients:

Each of the six advisors was doing his own thing, so that one client working with any one advisor was likely receiving a different type of service than they would have from any other. For example, while one advisor was doing comprehensive financial planning—using 90% TAMPs and 10% investment products—another advisor was selling 30% annuities, 50% TAMPs, and 20% investment products. There was simply no standard in place for advisors or clients.

- 2) Due to the regulatory environment, their broker/dealer was forcing them to move out of all B and C shares, yet offering them no assistance or guidance through that process.
- 3) Their overhead was running at about 75% of revenue (including payroll for each advisor).

### THE SOLUTION

First, we worked with all six partners to really develop a standard for each client that worked and felt right throughout the RIA. Each advisor now does financial planning; five of the six do comprehensive financial planning and the other one does limited or as-needed financial planning.

Next, to address the overhead issue and as a result of FocusPoint assuming many of the responsibilities previously assumed by XYZ and their staff, through a custom process, in the first two months of the transition we were able to cut the staff from 11 to six.

On the same note, were able to cut their necessary office space down by 50%. We also moved 70% of XYZ's clients to a fee-based model (meaning the advisors charge a fee for assets under management which covers all financial planning for clients).

## **TODAY**

Today (two years later), 95% of XYZ's revenue comes from retainer clients. Their revenue has increased dramatically to \$3.2 million/year, with slightly more assets (\$290 million). XYZ now has a staff of just five—three support people, one office manager, and a receptionist who also fills in here and there as a support person. The company is now running at about 80% capacity.

XYZ's overhead, including FPS fees, is at 46% (payroll with each advisor is also in this number). Over the last two years we continued to see their overhead drop; we expect that in two years it will have decreased to roughly 43% (advisors salaries are staying consistent with the Social Security maximum). We also helped them to change their company structure; it is now an S Corporation.

## **PRACTICE VALUATION**

There are really two ways to value a practice. One is to use the traditional 2-2.25 times revenue on all recurring revenue and one times commission business. The other method—and the one we believe is appropriate for larger firms—is a multiple of free cash flow.

Using the 2.25 number for recurring cash flow and one times commissions, the value of XYZ before their transition with us was just about \$4 million (\$1.5 from recurring revenue and 600k from commissions).

Today, that number would be at about \$7 million (\$6.8 million from recurring revenue and 160k from commissions).

If we use the free cash flow method, the practice originally would have been worth about \$4.2 million (based on a buyer paying eight times free cash flow). While that number is extremely high, we want to use a consistent number for this before and after example. Realistically, this number probably would have been more like five or six v. eight.

Again, using the same method, if put on the market today, XYZ's practice would be worth roughly \$12 million. (I used seven as the number here as this price would attract more buyers.)

There are two main reasons why there is so much additional value now in the business.

First, not only did XYZ streamline its infrastructure, we also substantially cut its overhead. Next, we increased the company's capacity by utilizing a system we specifically designed for how they do business. Additionally, revenues increased on all clients who moved from commission to fee accounts. XYZ's advisors also parted ways with a large number of clients who did not move to fees.

That was part of the larger vision we worked with the company to design—they wanted to incorporate one way of treating clients, and staying true to that vision have not brought on clients who do not fit into their clearly defined business model.

